



SUMMARY

Exploring the Possible Impacts of WTO Rules on Fisheries Subsidies:

The Case of the Southern Longline Tuna Fishery in the Western and Central Pacific

December 2019

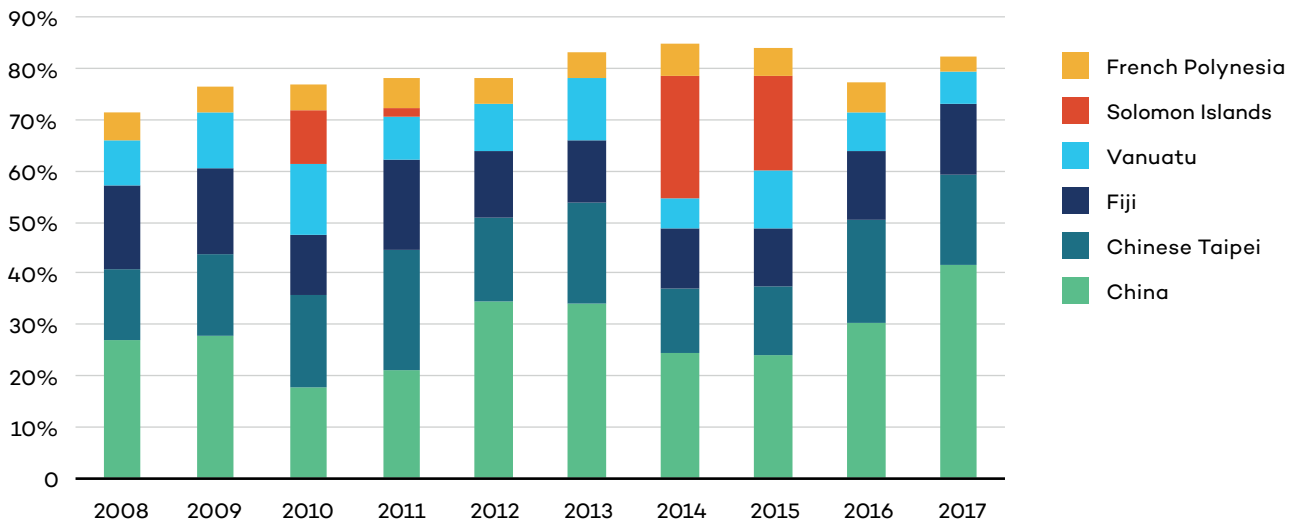
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The United Nations 2030 Agenda for Sustainable Development, adopted by heads of state in September 2015, includes a specific target of completing, by 2020, negotiations at the World Trade Organization (WTO) on new rules governing subsidies to the fishing industry. In the context of the WTO fisheries subsidy negotiations, new rules are currently being discussed in three specific areas: (1) subsidies that contribute to illegal, unreported and unregulated (IUU) fishing, (2) subsidies for the fishing of overfished stocks and (3) subsidies that contribute to overfishing and overcapacity more broadly. To help build an understanding of how possible subsidy rules might apply in practice, the International Institute for Sustainable Development commissioned three case studies to explore the possible impact of different options for WTO subsidy disciplines in three fisheries in distinct geographical areas. This case study explores the Western and Central Pacific Ocean (WCPO) southern longline (SLL) fishery managed by the Western and Central Pacific Fisheries Commission (WCPFC).

The SLL fishery is fished by several different fleets. South Pacific albacore is the main species targeted, but given the highly migratory nature of tunas and billfishes, vessels may also opportunistically target yellowfin tuna, bigeye tuna and swordfish. As albacore is the main species caught in the fishery, it is the focus of this case study. While target stocks (albacore, yellowfin tuna, bigeye tuna and swordfish) are currently healthy, one bycatch species—oceanic whitetip shark—is assessed as overfished. Other bycatch species, predominantly other shark species, are of unknown status.

In 2017, catches of South Pacific albacore were just under 93,000 tonnes, valued at around USD 268 million. This case study focuses on six fleets that together account for 80 per cent of South Pacific albacore catches in the area under the management of the WCPFC: those flagged to China, Chinese Taipei, Fiji, Vanuatu, Solomon Islands and French Polynesia (Figure S1). Twelve other fleets, which collectively account for the remaining 20 per cent of the catch and individually contribute less than 5 per cent to total catches, were not included.

Figure 1. Contribution to South Pacific albacore catches by the fleets flagged to the six case study fleets.



Source: Brouwer, Pilling, Williams, et al., 2018.

The fishery covers both the high seas and exclusive economic zone (EEZ) waters, as fleets follow schools of tuna. Over the last few years, around 60 per cent of the albacore catch has been taken in the EEZs of Pacific Island countries (PICs), with the remaining 40 per cent caught in high seas areas. Chinese and Chinese Taipei-flagged vessels catch more in high seas areas. These two fleets also account for 50–60 per cent of the entire WCPFC southern albacore catch. PIC-flagged fleets fish in their own EEZs, neighbouring EEZs and high seas areas.

The estimated number of vessels in the SLL fishery is currently 290, defined as those vessels whose catch is comprised of more than 50 per cent South Pacific albacore tuna. Around half of these are flagged to China or Chinese Taipei. Vessels range in size from small vessels (less than 24 metres) undertaking fishing trips of 2–3 weeks to larger vessels with ultra-low temperature freezing facilities operationally able to be at sea for months at a time. These larger vessels are geographically and operationally versatile and move between the SLL fishery and the WCPO tropical longline fishery targeting the tropical bigeye and yellowfin tunas.

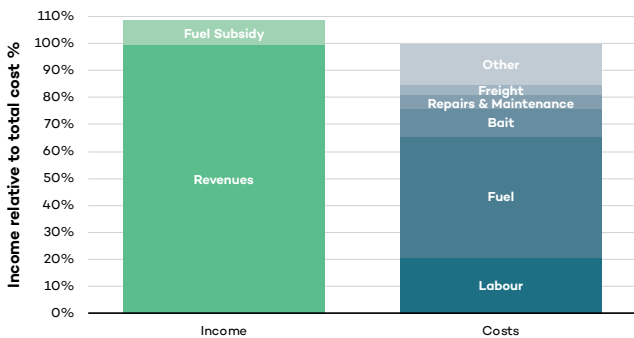
The fishery is managed at the regional level by the WCPFC through a combination of input controls, including an agreement to limit the total number of vessels in the SLL actively fishing for South Pacific albacore south of 20°S to 2005 or 2000–2004 levels. In PICs where the fishery operates, national fisheries management legislation also applies to vessels fishing within their EEZs. For example, Fiji has capped the number of longliners at 60. There are also two subregional initiatives under discussion aimed at establishing effort or catch caps, but these are yet to be implemented.

This case study examined available information on subsidy patterns for the six fleets included and, in some cases, with the use of proxy data, was able to estimate what income (including subsidy payments) relative to operating costs might look like for representative vessels from China, Chinese Taipei and Fiji (Figure 2). Based on these estimates, catch revenues from vessels over 24 metres from China and Chinese Taipei appear not to cover operating costs. If these estimates are representative, these vessels would not appear to be able to continue fishing unless they were receiving financial

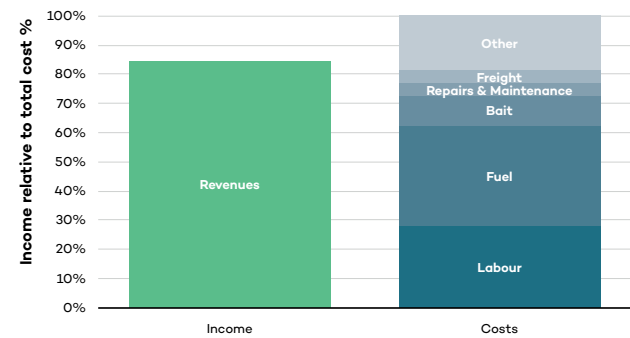
assistance to do so. A subsidy prohibition could thus have an impact on some of these vessels' ability to operate. Estimates of income and operating costs of a Fijian longliner, however, indicate that the vessel revenues are just able to cover operating costs; tax concessions in the form of fuel and bait tax rebates make a negligible difference.

Figure 2. Estimated cost and income structure of representative fishing vessels flagged to China, Chinese Taipei and Fiji in the SLL Fishery (methodology and data sources are presented in Section 4).

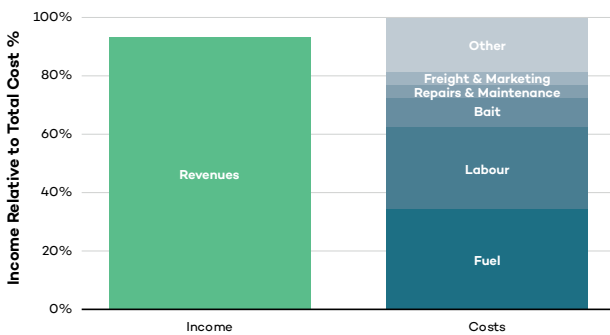
Chinese longliner (>24m) in 2014, when fuel price was above subsidy threshold



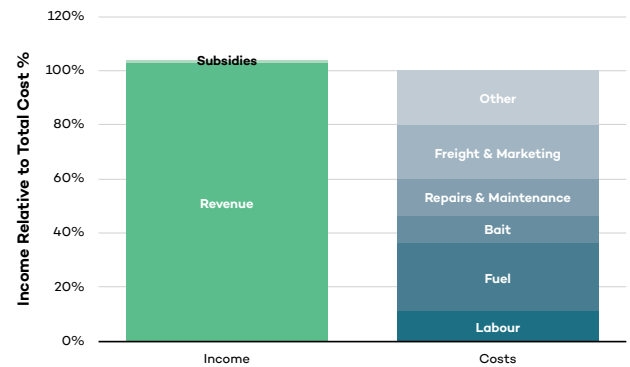
Chinese Longliner (>24m) in 2016, when fuel price was below subsidy threshold



Chinese Taipei longliner (>24m) in 2016



Fijian longliner, average 2012–2014



Issues in the fishery of relevance to the WTO subsidy negotiations concern IUU fishing, some overfished bycatch species and economic overfishing. The information available about the status of target and bycatch stocks in the fishery, the nature of IUU fishing and the economic status of the fishery suggests that the possible impact of different options for subsidy prohibitions will likely be different for different fleets in the fishery.

Illegal (unlicensed) fishing is negligible in the SLL fishery, but misreporting and illegal transshipment at sea are important: losses from these two aspects of IUU have been valued at around USD 150 million per year. The main causes are limited observer coverage (in some cases less than 5 per cent), paper-based catch reporting vulnerable to errors, verification issues and poor monitoring of transshipment events. The IUU subsidy discipline under discussion in the negotiations could be triggered by determinations made by regional fisheries management organizations, subsidizing members, flag or coastal states. There is currently a process for listing IUU vessels under the WCPFC, but only a handful of vessels usually end up being listed. The current list includes three vessels.



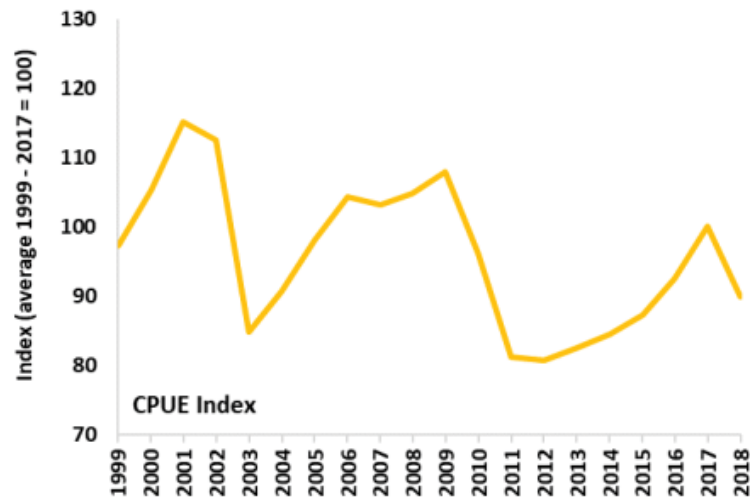
A subsidy prohibition triggered by such listing would thus probably have a very limited impact. Determinations of IUU fishing made by subsidizing states, flag states and coastal states may be useful to increase the potential impact of a subsidy discipline and to serve as a stronger deterrent to IUU activity if fines under domestic fisheries legislation are low. However, such an impact would strongly depend on WTO members' willingness and ability to make such determinations, the severity of current sanctions and the importance of subsidies in fleets' profitability.

Target stocks in the SLL fishery are all healthy, having been recently assessed as both not overfished nor subject to overfishing. One bycatch species, oceanic whitetip shark, is assessed as overfished. Other bycatch species, predominantly other shark species, are of unknown status. A subsidy rule that prohibited subsidies only to the fishing of overfished target stocks would therefore probably not have an impact in this fishery, as long as the main target stocks remained healthy. The impact of rules on subsidies to the fishing of overfished stocks might instead depend on whether the subsidy prohibition covered bycatch and unassessed stocks. A prohibition of subsidies to the fishing of overfished or unassessed non-target stocks would apply to all tuna fisheries in the WCPO, as oceanic whitetips and some unassessed species are incidentally caught in all of them. If the prohibition is this widely cast, the addition of a "negative effect" test to the subsidy rule would probably not change its impact.

The data presented on the estimated cost and revenue structure of fleets suggests that vessels flagged to China, and potentially Chinese Taipei, may be relatively more affected by subsidy rules than domestically owned Fijian-flagged fleets, for example, as the latter appear to earn enough to cover their operational costs. These estimates should, however, be interpreted with considerable caution, as data on the operating costs and revenues of fleets in this case study was very limited and had to be inferred for China and Chinese Taipei. In the case of Chinese Taipei, no information was available on subsidies to their distant water fishing fleets specifically.

However, there was clearer evidence available about the economic state of the SLL fishery as a whole. Despite the healthy biological state of South Pacific albacore tuna, catch per unit effort (CPUE) (the number of albacore caught per hundred hooks) has been falling—so, for the same operational cost, fewer fish are being caught (Figure 3). When this kind of economic overfishing has occurred in other fisheries, operators have exited the fishery because it was no longer profitable to fish. However, in the SLL fishery, vessels from some flag states appear to have been able to continue fishing, possibly due to subsidies for operating costs such as fuel. This has maintained an uneconomically high level of effort in the fishery, causing further decreases in CPUE. Those operations most affected by the decline are those that receive no financial assistance.

Figure 3. Catch rate indices in the SLL fishery



Source: Williams & Reid, 2019.

Regarding rules on subsidies that contribute to overfishing and overcapacity, the two options that would have the most significant potential impact are a prohibition of subsidies to operating costs, including fuel, and a prohibition of subsidies for fishing in waters beyond a WTO member’s national jurisdiction. Both options could reduce overall effort in the fishery if vessels became unprofitable, which may be more likely for fleets flagged to China and potentially Chinese Taipei. A prohibition of fuel subsidies could incentivize the move to more fuel-efficient engines (reducing greenhouse gas emissions), but could also shift efforts to areas where costs are lower (high seas, unregulated fisheries) and increase the cost disadvantage for PIC-based vessels, as fuel costs are higher in PICs.

Although its immediate impact would probably be negligible, a prohibition of subsidies to capital costs could contribute to limiting the level of effort in the fishery in the longer term. It could, however, have a relatively greater effect on aging vessels, such as those based in PICs that wish to modernize.

The exit of vessels affected by new WTO rules may have an impact on PIC domestic processing volumes and reduce access to fee revenues in the short term. Nonetheless, if sufficient effort were removed from the fishery, it is plausible that the profitability of remaining vessels would be improved through increased CPUE. This improved overall economic situation could, in turn, allow PICs to capture economic rent and increase access fees, and provide them with an opportunity for the development of their domestic tuna industry. Coastal states in the Pacific have long argued the case for greater participation in the SLL fishery in support of national aspirations. The realization of this objective would require financial support to PIC fishing companies (provided their operations are economically viable), capacity-building support in business skills and global market engagement. Until these PIC businesses are fully equipped to compete in the global marketplace, maintaining non-budgetary transfers (tax concessions) to address some of the comparative economic disadvantages due to their geographical isolation may be justified over a period of time.

Realizing the opportunity presented by new subsidy rules will require careful staging and involve striking a delicate balance between avoiding economic overfishing (through subsidy disciplines and fisheries management measures), minimizing economic impacts to PIC tuna industries, increasing rent capture from distant water fishing nation fleets, and allowing time for domestic fleets to innovate and improve efficiency to more effectively compete in the global tuna market.

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This study was produced with the support of The Pew Charitable Trusts.