

Trade in Fishing Services

Emerging Perspectives on Foreign Fishing Arrangements

Around half of the world's exclusive economic zones (EEZs) are subject to some form of foreign fishing arrangement (FFA). Although the discourse on such arrangements has been heavily influenced by government-to-government "foreign fisheries access agreements," it is important to set the discussion within a wider context which includes joint ventures between coastal-state and distant-water interests and the chartering of foreign fishing vessels by coastal state interests.

Although inter-governmental agreements may be a significant source of revenue for some developing countries, they have not always received good press. Criticisms include the inequitable sharing of gains between coastal state and distant-water partners and the role that distant-water fleets may play in overexploiting coastal state fish stocks of vital importance to local economies.

Overall, the various forms of foreign fishing arrangements represent mechanisms for international trade in fishing services (TIFS), offering the possibility for coastal states, especially developing countries, to increase the benefits from the exploitation of their fish resources.

TIFS STUDY

Trade in Fishing Services—Emerging Perspectives on Foreign Fishing Arrangements is the culmination of a global analytic and empirical study commissioned by the World Bank. The study sets out to derive a better understanding of foreign fishing arrangements and their impacts on coastal developing countries. The report draws on detailed case studies (see Table at right) to examine the economic and legal underpinnings of FFA. It identifies the likely causes and potential solutions that would enable coastal states to capture and sustain optimal, equitable returns from the exploitation of their fish resources.

The review adopts an international trade perspective, focusing in particular on harvesting services, although the post-harvest value chain and processing aspects are also recognized as crucial. The report identifies how coastal states might benefit from international trade in fishing services, considers the

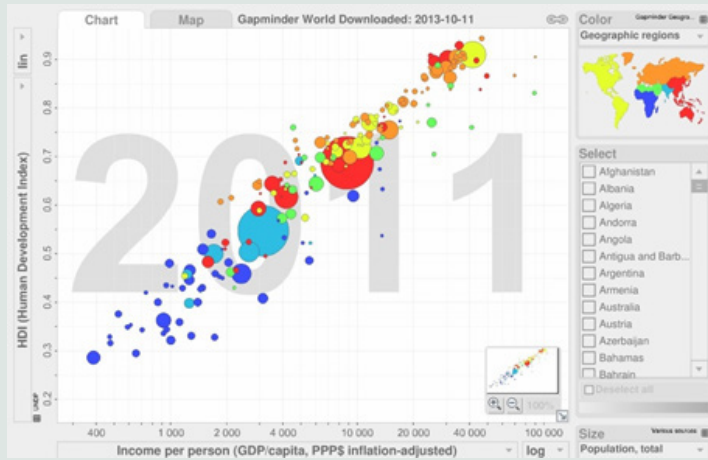
Region/Country	Case Study
Western Pacific	Explores how members of Forum Fisheries Agency have increased economic returns from tuna access
Areas Beyond National Jurisdiction (ABNJ)	Discusses problems presented by fishing in ABNJ
Morocco	Discusses Morocco's use of foreign fishing services over the past 30 or so years
Small-Scale Fishers	Discusses issues of how foreign fishing services may affect coastal-state small-scale fishers
European Union Northern Agreements	Explores the European Union's bilateral fisheries agreements in the northern hemisphere
Chinese Distant Water Fishing	Reviews the extent of China's significant distant-water fishing arrangements
New Zealand's Experience with Joint Ventures	Discusses New Zealand's use of different forms of foreign fishing services over the past few decades
The Bering Sea Pollock Fishery	Explores the transition of an essentially foreign-operated fishery into a fishery operated by the U.S. fishers

conditions necessary for such benefits to be sustained and increased, and discusses the implications for stakeholders, especially those in coastal developing countries.

FISHERIES, GROWTH, AND WELFARE

The proposition that social welfare depends on sustained economic growth is well established both theoretically and empirically (see for instance, *The Growth Report*. World Bank 2008). The Figure (page 2) shows the very strong relationship between the Human Development Index (HDI) and gross domestic product (GDP) per capita using worldwide data for 2011. The same relationship also holds through time for

FIGURE —
Relationship between HDI and GDP per capita



Source: www.gapminder.org (Logarithmic scale is used to show the clear relationship between HDI and GDP per capita).

individual countries. This figure shows a very rapid increase in HDI at lower levels of per capita GDP, demonstrating in particular the crucial importance of economic growth to social welfare in developing countries. As countries become wealthier, progressively larger increases in GDP are required to achieve a given percentage increase in HDI.

Marine fish resources represent valuable natural capital that, if managed carefully and sustainably, can contribute a wide range of benefits in perpetuity to coastal states—the resource owners—to fishers and to consumers of seafood. Because of their renewable nature, fish resources have the potential to make a perennial contribution to economic growth through the resource rents that they can generate.

TRADE IN FISHING SERVICES

The proposition that trade is an important driver of economic growth is also well established. However, in the case of fisheries, it is the significance of trade in fish and fish-products that has dominated the policy agenda. According to the 2011 FAO Yearbook of Fishery Statistics, international trade in fish commodities was around US\$130 billion.

It is difficult, if not impossible, to find any similar succinct statement concerning international trade in fishing services. Yet there is no *a priori* reason to believe that trade in services will be less important than trade in goods in the case of the fisheries sector. In fact, as the trend away from free and open access to fish resources toward access regimes based around

use and property rights of different kinds takes hold, there is every reason to believe that there will be increasing interest in generating further benefits from fish resources through international trade in fishing services of all kinds, in particular harvesting and processing services.

COMPARATIVE ADVANTAGE

When will coastal states perceive foreign fishing arrangements to be in their economic interest? If foreign fishers have a comparative advantage, coastal states can benefit from importing their services. Such a comparative advantage could arise for many reasons throughout the fisheries value chain. For instance, foreigners may have comparative advantage in the following operations:

- **Fishing**—due to skill or access to capital enabling them to operate more efficiently in capital-intensive fisheries
- **Processing**—due to the scale of operations
- **Marketing**—due to market access, proximity to customers, product branding.

Comparative advantage does not depend only on the relative efficiency of the fishing industry of the coastal state compared with distant-water fishing nations. Comparative advantage may also arise because the coastal state has other profitable sectors that can make better use of its resources such as capital and labor than can the fishing industry, or the distant-water fishing nation may have few other opportunities and may be prepared to fish at very low cost. There is a need to promote understanding of comparative advantage with respect to fishery policy development.

Comparative advantage will determine the gains that are available from trade. These gains will be shared between stakeholders according to the terms of trade. The report analyzes how these terms of trade may be expected to evolve using a combination of principal-agent analysis and game theory. The difficulty for the coastal state as principal is to devise a set of institutional arrangements that will give it an increasing share of the gains from trade.

IMPROVING FOREIGN FISHING OUTCOMES

This is a vast and complex topic, and this section picks out some of the key lessons from the various case studies commissioned under the project.

In the Pacific Island Countries, a first important factor explaining the improved returns from the exploitation of their tuna resources is regional cooperation between coastal states. They

have also developed, over a very long period, their institutional and human capacity for fishery management at national, regional, and sub-regional levels. Finally, the widespread application of effective, competitive arrangements for distant-water fishing nations to supply fishing services has significantly increased revenues from fees and benefits from the development of domestic downstream industries.

The other case studies—notably those concerning Morocco, EU northern agreements and Chinese distant-water fishing—suggest how foreign fisheries access agreements might be improved.

As with the exploitation of other natural resources, a key element is transparency. An arrangement for fishing along the lines of the Extractive Industries Transparency Initiative (EITI) would be worth investigating.

It is also important that foreign vessels' activity be managed as part of the coastal state's fisheries management framework rather than being managed by a separate legal instrument. Ideally, distant-water fishing opportunities should be specified in terms of catch volume.

The coastal state must have sufficient capacity for monitoring, control, and surveillance (MCS) to ensure compliance with the rules and regulations, so that catch limits are observed and conservation measures implemented. This must be complemented with flag state control through vessel monitoring systems, verification of catches and timely exchange of data.

A complex area where a detailed analysis is necessary concerns subsidies to distant-water fishing fleets and how they affect and interact with TIFS. For example, such subsidies can influence apparent comparative advantage, and accordingly their removal would require coastal states to adjust their policy.

Capacity-building efforts should not only target coastal states. The Chinese case study for example points to a number of areas where building capacity and raising awareness amongst both fishers and flag state authorities could contribute significantly to improving sustainable and equitable fisheries management.

SPILLOVER EFFECTS

As coastal state fisheries management becomes more effective, fishing effort might be transferred toward areas beyond national jurisdiction (ABNJ). This is one threat facing the vessel day scheme in the Western Pacific. The most effective way of addressing this may be to strengthen coalitions of coastal states and their linkages to regional fisheries management organizations (RFMOs) and to subject distant-water fishing

in the high seas to some appropriate cost. High-seas performance could be taken into account in the allocation to foreign fishers of fishing opportunities in adjacent coastal states' EEZs.

Foreign fishing frequently raises concerns over adverse impacts on the domestic fishing industry, especially for small-scale fishers. Rights-based systems that include all segments of the domestic industry, including small-scale fishers, can have an important mitigating effect in this regard. Although devising appropriate tenure rights for small-scale fishers is a difficult challenge, experience with community-based and communally-held rights offers insights on which to build in situations where allocating individual rights is not feasible. Concerns of small-scale fishers must be fully represented during negotiations concerning foreign fishing arrangements.

The negotiation of access agreements and other forms of foreign fishing are likely to be very unpopular with domestic fishers in situations where domestic fisheries management arrangements are inadequate and especially where tenure arrangements and use rights are unclear or do not exist. In this case, foreign fishers simply become powerful competitors for domestic fishers who understandably react adversely. However, where tenure and use rights exist, very different outcomes may occur. In this case domestic rights holders can benefit from making rational choices of whether to use domestic or foreign fishing services.

USE RIGHTS AND FOREIGN FISHING

The development of equitable secure tenure and rights systems is essential for fish resources to deliver their full and effective contribution to economic growth in a sustainable manner. At the same time, such systems are likely to generate much greater fishing-service trade than is currently the case.

A basic requirement is for the international community to identify and fund an appropriate organization to develop and maintain statistical databases on trade in fishing services. At the same time, there is a need to develop awareness and understanding that the international trade economics arguments, notably comparative advantage, underpinning the case for free trade, apply just as much to services as they do to products. Otherwise there is a risk that coastal states will apply protectionist policies in the case of fish resource use to their ultimate disadvantage.

The New Zealand case study shows how trade in services might be expected to develop as rights-based systems become more common. New Zealand rights-holders have made great use of foreign fishing services through chartering arrangements. The biggest advantage has been that rights-

holders have been able to use the most cost-effective combinations of capital and labor for their harvesting and processing operations, thereby increasing the returns obtained from their rights. In addition, the ability to use foreign-chartered vessels reduces the need for rights-holders to raise capital. This has been an advantage especially for those with only a small quantity of rights who have been able to combine their rights with other holders in undertaking chartering operations. Finally, linking with foreign operators has generated tariff- and quota-free access for fishing products into the partner's home market. The main problem that New Zealand has faced with this system has been to control the activities of foreign-registered fishing vessels operating under charter in its EEZ. A few foreign charter vessels have operated in ways that have undermined the reputation of the whole sector and of New Zealand itself. As a result, all foreign charter vessels will have to be registered in New Zealand starting in 2016.

The Alaskan case study shows a rather different experience with trade in fishing services. In essence, joint ventures were used as a way of transferring fishing skills from foreign to U.S. fishers. Together with various legislative changes, this transfer of skills changed comparative advantage in the fishery which went from being almost entirely foreign-operated to completely domestic within 10 to 12 years. This change in the operator nationality did impact the economy in terms of local employment and incomes but did not lead to generation of significant economic benefits in the form of resource rents. It was only when institutional changes were made leading to a rights-based system that substantial resource rents began to appear.

The interesting question concerning Alaska is whether and how much the order of the changes may have mattered. If rights-based systems had been implemented first, would there still have been the transfer of skills and exit of foreign operators? It is difficult to know, although it does seem that it is definitely domestic fishers who now have the comparative advantage. It will be interesting to observe over the coming years whether existing national rights-holders will choose to use foreign fishing services in the further development of this important fishery.

CONCLUSIONS

Fish resources represent natural capital whose rational exploitation can make a sustainable contribution to economic growth and social welfare. Around the world an increasing number of coastal states are making progress towards realizing this poten-

tial by reforming the institutional arrangements under which their fish resources are exploited. Among the key reforms are the introduction of secure tenure and use rights systems and the opening up of the economy to international trade. For the moment, trade has focused almost exclusively on fish and seafood products. However, as reform progresses, international trade in fishing services—TIFS—is likely to become an increasingly important part of a strategy to maximize the sustainable economic benefits from fish resources.

Overall, although trade in fishing services may raise some issues such as competition between domestic and foreign fishers, it is likely to be a significant part of a strategy to maximize the economic benefits from the exploitation of fish resources. The case studies examined in the review show how different countries have benefited from TIFS in a variety of contexts. They certainly show the potential benefits from such services and the importance of moving TIFS to a more central position in the fisheries policy debate.

The study distills the following recommendations:

- Improve awareness and understanding of the central role that TIFS plays in foreign fishing arrangements
- Emphasize the need for effective EEZ fisheries governance and management by coastal states in order for states to capitalize upon and optimize the potential benefits from TIFS
- Include all participants of the domestic fishing industry, particularly small-scale fishers, in processes to define more effective management arrangements based on secure tenure and use rights
- Ensure concerns of all fishers, particularly small-scale fishers are appropriately represented during negotiations concerning foreign fishing arrangements
- Develop knowledge products on the benefits of well-managed fisheries for human well-being, economic growth, and ecosystem health beyond the impacts of fishing activity on local economy
- Identify an organization capable of developing and maintaining databases on TIFS and using the information gathered to help position TIFS more centrally in fisheries policy planning
- Facilitate South-South collaboration and the exchange of knowledge and experience in best practice, particularly in the areas of effective regional cooperation and negotiation experience
- Build capacity and raise the understanding of the economics of TIFS among donor and recipient countries toward sustainable fisheries.