APPENDIX 6

SUSTAINABILITY IMPACT ASSESSMENT OF PROPOSED WTO NEGOTIATIONS: THE FISHERIES SECTOR

PARTIAL CASE STUDY: JAPAN & USA

Draft – not for citation

12 March 2006

1. Baseline : fisheries production, trade and consumption

Production

The USA and Japan both have similar levels of fish production – around 5.5 million tonnes pa, largely on the basis of marine capture fishery. In Japan aquaculture is more important with a little under twice the US level. The US catch/production has declined to a modest degree since the early 1990s, however Japanese production has sharply declined to around a half of its former level. The decline in Japanese catch stemmed in part from the imposition of EEZs but also from limitations in fish stocks for some major species.

Consumption

Japan has one of the highest global per capita levels of fish consumption and fish has traditionally played a key role in diets and as the major protein source. Currently consumption is around 60 kg per capita and totals around 8 million tonnes. In the USA per capita levels are much lower at around 20 kg with total consumption of food fish at 5 million tonnes. Current Japanese consumption includes a very wide range of species with significant volumes of fresh/chilled and high value products. However fillets and other canned products are also important. In the USA there is substantial consumption of processed products and high value fresh/chilled products are less significant than in Japan.

Trade

As a result of production and consumption patterns Japan is the world's largest importer of fish and fish products. The two key product groups are fresh/frozen fish and fresh/frozen crustaceans and molluscs (around 85 percent of total imports by value). Fresh frozen fish includes a wide range of species (including high value and specialist items), with tuna and salmon of particular importance, but fillets overall are the largest component. Shrimp and prawn represent the largest component of crustacean and mollusc imports followed by crab. Canned fish are of only limited significance and canned crustaceans and molluscs are the smallest category. Japanese exports in all fish product categories are small with the partial exception of canned fish.

In the US trade is also dominated by imports aside from the category of fresh/frozen fish. The largest category by value is fresh/frozen[1] crustaceans and molluscs (around 50% by value of all food fish imported items), within which frozen shrimp and prawn are easily the most important followed by crab and other high value items. Fresh and frozen fish imports are dominated by fillets. Exports include pacific salmon, but also material for processing overseas that is the sold back to the US market. Canned products as a whole are less important within imports (in value terms) although canned shrimp and prawn are of some significance.

Taking the two markets together, key product species areas with respect to trade are frozen fillets, shrimp and prawns – especially frozen items, and some canned products.

2. Projected production, consumption and trade

One of the most comprehensive set of projections for the global fishery sector has been developed by IFPRI, and summary data covering Japans and the USA are presented in the tables below. Whilst the projections attempt to take into account a variety of factors they do not incorporate possible impacts from WTO action. The IFPRI view is that tariffs overall in fisheries trade are now at relatively low levels and that impacts are likely to be limited with the exception of some areas of south-south trade. In practice WTO impacts may be have some effects for Japan and the USA in part with respect to traded volumes but also for supplying countries (see below). However, the model and projections do provide a reasonable base case i.e. indicator of potential future trade in the absence of WTO action. The data shown are all for the baseline variant of the model.

[1] The term fresh/frozen is used throughout for the combined totals of live, fresh, chilled and frozen products within any given category

Table 1 Production: Japan and USA 1997 and 2020 (000 tonnes)

	Japan		USA	
	1997	2020	1997	2020
Total food fish	5188	5172	4423	4927
Capture	4397	4128	3996	4131
Aquaculture	791	1044	427	796
High value	2110	1999	2815	3056
Low value	1423	1368	494	775
Molluscs	1512	1641	695	663
Crustaceans	143	164	414	433
Fishmeal	359	355	300	347

Source: Delgado et al 2003

Production data overall indicate ongoing stagnation in Japan, whilst in the USA there is significant expansion. Aquaculture is the most dynamic sector in both countries. In Japan the static overall picture incorporates a decline in both high and low value fish, but expansion elsewhere, especially molluscs. In the USA expansion is very largely via fish products – for both high and low value items. In the USA fishmeal production is also forecast to expand.

Table 2 Consumption: Japan and USA 1997 and 2020 (000 tonnes)

	Japan		USA	
	1997	2020	1997	2020
Total food fish	7983	7439	5352	6251
High value	4176	3895	3605	4164
Low value	1049	971	35	41
Molluscs	1813	1780	867	1074
Crustaceans	731	705	267	296
Fishmeal	731	705	267	296

Source: Delgado et al 2003

The projections for consumption indicate a contraction for all product groups in Japan – a function of a small decline in per capita consumption and declining population (the latter especially in the longer term). The composition of consumption does not alter substantially. Despite expanding aquaculture production fishmeal consumption is forecast to decline. In contrast in the USA consumption overall and for all product categories is projected to increase. This stems essentially from the dynamics of population and income growth.

Table 3 Net exports: Japan and USA 1997 and 2020 (000 tonnes)

	Japan		USA	
	1997	2020	1997	2020
High value	-2073	-1903	-901	-1235
Low value	320	347	422	690
Molluscs	-647	-478	-195	-444
Crustaceans	-712	-629	-432	-539
Fishmeal	-372	-350	33	51

Source: Delgado et al 2003

Net trade flows for Japan reflect production and consumption trends, with falls in the latter resulting in a decline in existing negative trade balances in most product categories. This is in contrast to the USA where increasing consumption requirements and limits to expansion in production, especially for high value items leads to sharply increasing trade deficit. The exception for both the USA and Japan is low value fish where limitations to domestic consumption leads to and increase in positive trade surpluses.

3. WTO issues

NAMA

Tariffs: Current tariff levels in the USA and Japan are often quite low but there are areas where higher tariffs still exist and for example, provide a degree of protection for domestic processing industries. In both countries tariff rates are also not always particularly transparent, e.g. for intermediate products 38% of US and 20% of Japanese tariff lines are per unit specific or compound duties. However in the case of the USA the ad valorum equivalent of these tariffs is only a little over 2% on average.

In the USA raw material products e.g. fresh/frozen groundfish and frozen shrimp and prawn are zero rated. However processed products e.g. fish sticks attract duties of 10% and other processed items 7.5%. Cephalopod products whether frozen or canned are zero rated. In contrast rates for canned products may be considerably higher e.g. 35% for

tuna in oil, 6% for tuna in brine up to quota levels (23,000 tonnes in 2004) and at 12.5% thereafter. There are a number of concessions depending upon origins e.g. Central American products in oil are zero rated, as is Australian canned tuna. The most important concession overall is that all seafood products of developing country origin are exempt from duties.

Whilst duties in the USA are generally of limited significance, suppliers, especially low cost developing country producers, face the potential threat of anti dumping measures e.g. with shrimp and other products. The latter measures have been directed in the past against a number of Latin American and Asian suppliers.

In Japan there is a similar structure of lower rates on raw material items and higher rates on processed products although the pattern and rates differ to a degree from the USA. For whole fresh/frozen groundfish and tuna the rate is 3.5% whist fillets and other value added items are charged between 9.6% and 10%. Similarly fresh shrimp attract 1.8% duty, cooked products 4.8% and frozen and canned 6%. Canned tuna attracts a duty of 9.6% although there are concessionary rates of 6.4%. Fresh/frozen cephalopod products are charged 3.5% to 7%, whilst canned items are charged 10%. Japan offers duty exemption on a range of products of LDC origin.

Overall, further reductions in tariffs could therefore have some impacts notably for those products where rates of around 10% or above currently apply i.e. groundfish products in both the USA and Japan. The likely outcome would be a further shift of processing activity (especially labour intensive components), to e.g. non – developing country Asian producers. Similarly whilst rates for shrimp and prawn are relatively lower especially in the USA, tariff reductions could have some impact with scope for non-developing country Latin American and Asian producers to strengthen their position in processed product markets. Canned tuna is a much smaller market in value terms compared to those for fresh/frozen shrimp and groundfish, but reductions in tariffs could be important given current rates for non-concessionary countries. Again supplying countries to benefit would most likely be in Latin American and Asia.

Tariff changes are unlikely to impact on levels of Japanese consumption given current duty levels, but there could be some effects in the USA. In the US market changes could strengthen existing consumption in high value fish and crustacean markets (Table 2) in particular and have a more marked effect in trade terms (Table 3) because of the likely ongoing transfer of processing capacity to low cost producing countries. Thus the growing deficits in these items could be emphasised. Impacts in Japan are likely to be more muted with regard to trade and processing patterns.

Non-tariff measures: Both the US and Japanese markets are highly quality conscious and have strong consumer pressure groups which lobby on a range of issues e.g. environmental concerns. Ongoing SPS and TBT issues will place pressure on suppliers to meet increasingly stringent standards. Overall these are most likely to inhibit suppliers in LDCs and/or smaller scale producers and processors in developing countries more

generally. On the production side both aquaculture (e.g. use feed and additive issues) and capture fisheries (e.g. dolphin and turtle protection etc) will continue to be affected.

Traceability is important in both countries e.g. there are requirements to indicate country of origin in labelling for tuna products and shrimp. In the case of shrimp both countries have also become more sensitive to issues such as use of antibiotics. For some product groups, notably cephalopods there are fewer concerns since products are exclusively from capture sources.

The impacts of ongoing non-tariff measures are more likely to be upon the composition of suppliers than the levels of consumption and trade, although for example major health "scares" can have very substantial (and sometimes irreversible) effects on consumption. It is also the case that where such crises occur it is generally difficult and sometimes impossible for affected supplying countries to recoup market share.

Subsidies

Subsidies have been used extensively in the past in the fisheries sectors of both Japan and the USA. In Japan subsidies have been particularly prevalent in support of the fishing fleet. The US has also engaged in subsidising various components of the fishery sector including research and development and the development and expansion of the fishing fleet. More recently the US approach has been to seek to restrict fleet capacity through buy back programmes.

Both countries have also engaged in distant water activity. US fleets e.g. those operating in the South Pacific region have operated under a treaty with Pacific island states which includes licensing aspects but also USDA support which effectively represents a subsidy. Such distant water leasing options are often also criticised because they may lead to over-fishing, but since the US system is based on fees per trip rather than on catch levels, the incentive to under-report catches is removed, and the system less of a threat to sustainability. Japanese distant water activity is more opaque, since although a head agreement is negotiated at government level, actual agreements with individual pacific states are negotiated by companies. Ostensibly these arrangements are also de-linked from Japanese aid. As in the US system licensing fees are reported to be on a trip rather than catch level basis.

Japan and the US are at opposite ends of the current debates on subsidy issues. The US view (along with other members of the "friends of fish" group), is that the WTO ASCM measures do not go far enough in terms of environmental and developmental concerns. Japan in contrast argues that subsidies are an issue only where they lead to distortions in trade. Over fishing as such is seen as a management issue rather than an outcome, or partial outcome of subsidies. Other countries and country groupings have taken a variety of stances, and given this and the complexity of the subsidy issue, it may be some time before differences begin to be resolved.

Subsidies overall are therefore a complex and contentious area, with early resolution of current disagreements unlikely. To the extent that a reduction in subsidies leads to and increase in fishing costs, then this might be expected to diminish production, consumption and/or trade, with an offsetting beneficial impact on fish stocks. Reduction in subsidy elements in distant water activity is likely to lead to a reduction in foreign vessel activity. The outcomes then depend upon the capacity of affected states to develop their own fishing capacity/effort with knock on effects on production and trade. A further issue is the degree of exploitation of stocks prior to removal of subsidies and the extent to which more sustainable catch levels are below those which were caught by foreign fleets. Overall a variety of outcomes with respect to production and trade are therefore plausible.