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**TRADE AND AGRICULTURE DIRECTORATE
FISHERIES COMMITTEE**

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MID-TERM REVIEW OF THE FISHERIES POLICY REFORM PROJECT

This document is submitted for DISCUSSION and GUIDANCE to the 99th Session of the Committee for Fisheries, 18-20 April 2007, under item 9 i).

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NOTE BY THE SECRETARIAT

This paper provides a progress report on the Committee for Fisheries project on fisheries policy reform. Delegates are requested to DISCUSS the progress to date and provide guidance on the next steps of the project. In particular, advice is sought on:

- Suitable case studies for the in-depth special study on international governance reform;
- Whether a meeting of RFMOs and other interested parties might assist in providing information and feedback on the special study on international governance reform, and when would be an appropriate time for such a meeting; and
- The role of the special study on subsidy reform.

MID-TERM REVIEW OF THE FISHERIES POLICY REFORM PROJECT

Introduction

1. At the 95th Session, the Committee decided to undertake a major project analysing the process of fisheries policy reform in OECD countries. The impetus for the project came from the recognition that the pursuit of sustainable and responsible fisheries remains a challenging process in OECD countries. Throughout the OECD, countries have already undertaken a range of policy changes with the goal of achieving sustainable fisheries. Policy reform is a multidimensional process and can occur at a number of levels (economy-wide, regional, sectoral, sub-sectoral, fleet level, level) and can be both short-term and long-term. This is reflected in the considerable variety in the type of policies introduced and the processes by which changes in policies are implemented in OECD countries.

2. However, in many cases, the pace of policy reform has been slow and much remains to be done. Obstacles to policy reform in the fisheries sector remain in place and strategies to overcome these are needed if the fundamental objective of sustainable fisheries is to be achieved. While the Committee for Fisheries has made significant progress in identifying the characteristics of sustainable and responsible fisheries over its past work programmes, much of this work has focussed on what appropriate reform objectives might be rather than on the process by which the objectives might be attained. That is, the work has focused on the end points of reform and less on the process of policy reform. The aim of this project is, therefore, to obtain a better understanding of the characteristics of successful policy reform. This will provide policy makers and fisheries administrations contemplating reform with a sound analytical base to assist them in the development and implementation of policy changes.

3. This paper provides a mid-term review of the project, providing an update of the progress on the various elements of the project, identify the key findings of the work to date (where relevant), and discuss the next steps. Before reviewing progress on the project elements, it is useful to recall the objectives, structure, timing and methodology of the project.

Project outline

Objectives

4. The objectives of the project are to analyse drivers for and obstacles to policy reform in the fisheries sector and to identify the characteristics of successful reform in key fisheries policy areas. The project will highlight common elements in reform experiences to enhance the information base from which policy makers can draw as they undertake policy changes in their own countries and to assist countries in identifying strategies for overcoming obstacles to policy reform.

Structure

5. The project is divided into five major parts:
1. Overview of selected examples of successful fisheries policy reform at the general level
 2. Identify the drivers for policy change in the fisheries sector

3. Identify the obstacles to policy reform
4. Develop an analytical framework for analysing how policy changes take place, based on political economy concepts
5. Conduct in-depth special studies of four components of the fisheries system which are seen as critical to overall fisheries policy reform:
 - E.1 Labour market adjustment
 - E.2 Capacity adjustment
 - E.3 Governance (both domestically and internationally)
 - E.4 Subsidy reform

Timing

6. Work on Part A will continue throughout the project (until the end of 2008), building case studies of particular reform experiences to form a broad overview of what successful reform entails.
7. Parts B, C and D were undertaken early in the project as they are interrelated and could be addressed simultaneously. The focus of these parts was to assess the contours of the problem and to develop analytical tools for the rest of the study.
8. Most effort will be devoted to undertaking part E as this is where the new material and major policy insights are to be developed.

Methodology

9. The project will be based on case studies, Secretariat desk analysis and consultant reports (depending on availability of funds). Case studies will be the main means of gathering data and this is discussed further below. A workshop was held on the “Human Side of Fisheries Adjustment” in October 2006 in support of the special study on labour market adjustment.

A. Overview of selected examples of successful policy reform

Progress and key findings

10. The objective of this project element is to provide a brief overview of general policy reform in the fisheries sector of selected OECD countries, focusing on the concept of successful reform and highlighting the multidimensional nature of reform. Such an overview will highlight the possibility of successful reform and will provide a broad context for the overall project.
11. An outline for the case studies was presented in AGR/FI(2006)7. This outline discussed the concept of reform and what is meant by successful reform. It identified reform experiences of six countries – New Zealand, Norway, Iceland, Canada/United States and Spain – as providing a broad cross-section of reforms that would highlight the different ways in which reforms are generated and managed. Case study material has been collected for Norway and New Zealand and work is progressing on the remaining countries.
12. Further analytical work on the case studies is required before key findings can be identified.

Next steps

13. The case study material for the remaining countries (i.e. Iceland, Canada/United States, Spain) will be gathered and a paper prepared. It is anticipated that a draft paper will be available for the 101st Session of the Committee in April 2008.

B. Drivers for policy change*Progress and key findings*

14. The paper AGR/FI(2006)8 was presented to the 97th Session of the Committee. The paper drew on the available literature on political economy to identify the key drivers for policy change and applied it to the fisheries sector.

15. The key insights from this review can be summarised as follows.

- The *initial conditions* prior to reform will determine the scope for reform to enhance economic performance. The fisheries sector may offer considerable scope for reform in those fisheries where there is an acknowledged gap between actual and potential resource rent.
- *Economic and environmental crises* can generate a consensus for reform, weakening opposition to reform and raise the costs of maintaining existing policies. Many of the broad-based reforms in OECD fisheries have been the result of poor economic performance in both the economy and the sector. In contrast, environmental crises have not necessarily been a sufficient condition for generating momentum for reform.
- *Economy-wide reforms* have also been a catalyst for reform in the sector, particularly in relation to the introduction of market mechanisms for fisheries management and the outsourcing of some fisheries services.
- Impetus for reform has also been generated by *international factors*, such as the competitive pressures resulting from more open trade and commitments imposed by international treaties and agreements (such as the current negotiations on fisheries subsidies in the WTO).
- *Political institutions* and political decision making systems in countries may influence the ability of governments to implement reform. Issues include the type of political system in place, the political orientation of the government, and the government's tenure in office.
- The *timing and sequencing of reforms* can be a major strategic factor. Issues include the complementarity of institutions and policies, the use of confrontation, exclusion and wedge strategies, and the sequencing of reforms along the different parts of the fisheries value chain.
- *Compensation strategies* play a major role in the reform programs of OECD countries. Compensation can be used to overcome resistance to reform (by providing transfers to reduce political opposition), reduce the negative impacts of reform, and to ensure the durability of reform. However, it is important to ensure that the net benefits of the policy reform remain positive after compensation has taken place, including the costs of the deadweight losses from the transfers and the opportunity cost of the government funds used in compensation.

Next steps

16. This work will be refined and revised towards the end of the project to incorporate further insights gained from the in-depth special studies and discussion at the Committee for Fisheries.

C. Identify obstacles to reform

Progress and key findings

17. The paper AGR/FI(2006)8 was presented to the 97th Session of the Committee and provided a review of the factors that inhibit policy reform, with reference to examples from the fisheries sector.

18. At a general level, resistance to policy reform is reflected in a tendency by politicians and stakeholders towards maintaining the status quo. This resistance can be ascribed to a number of factors including:

- perceived unequal distribution in the potential gains and losses from reform;
- the differential organisational ability of groups;
- the timing of the cost and benefits of reform; and
- uncertainty regarding the gains and losses from reform.

19. The political economy literature also highlights the problems of sustaining policy reform in the face of pressure from social actors to reverse some or all of the policy changes once they have been implemented.

Next steps

20. This work will be refined and revised towards the end of the project to incorporate further insights gained from the in-depth special studies and discussion at the Committee for Fisheries.

D. Analytical framework

Progress and key findings

21. The paper AGR/FI(2006)8 was presented to the 97th Session of the Committee and provided a review of the factors that inhibit policy reform, with reference to examples from the fisheries sector. The paper combined the analysis from Parts B and C with a broad typology of the economic actors in the fisheries sector to develop an analytical framework based on the demand for and supply of policy change. This framework highlights:

- the role of institutional arrangements;
- the role and power of different stakeholder groups in the institutional arrangements and their ability to influence policy choices and outcomes;
- distribution of the costs and benefits of policy change; and
- impediments to overcoming the inherent bias towards the status quo.

Next steps

22. This work will be refined and revised towards the end of the project to incorporate further insights gained from the in-depth special studies and discussion at the Committee for Fisheries.

E.1 In-depth special study -Labour market adjustment*Progress and key findings*

23. The issue of labour market adjustment is probably one of the most difficult issues confronting governments in reforming fisheries policies and one of the areas where the least analysis has been undertaken. Dealing with an excess supply of labour in areas where there are few alternative employment opportunities and labour mobility is low is a significant policy challenge, but is a necessary part of the reform agenda in many OECD countries.

24. To help address this policy challenge, a one-day workshop on “The Human Side of Fisheries Adjustment” was held in Paris in October 2006. The workshop brought together a range of country experiences to share information on how different governments are addressing social issues in times of fishery sector adjustment. A keynote paper was followed by a series of country case studies. The papers from the workshop are available from the Delegates Corner on the OECD Fisheries webpage.

25. The key findings from the workshop were:

- The particular characteristics of the fisheries sector make the social aspects of the adjustment challenge all the more difficult to assess and anticipate. There is a general stickiness in the fisheries-related labour market, with low job mobility and limited employment alternatives in many coastal regions. This has a flow-on effect on the flexibility and resilience of fishing communities.
- Government efforts to facilitate adjustment have tended to focus on short-term efforts to find alternative employment for redundant fishery workers (often referred to as “active” labour market policies). These are generally introduced as an adjunct to capacity adjustment programmes and are often added as an afterthought given that vessel reduction is usually the main focus of the policy reform. There has, however, been little evaluation of the effectiveness of such active labour market policies across the fisheries sectors of OECD countries and there is considerable scope for developing policy insights from the experiences of schemes that have been implemented to date.
- There is also a longer-term issue in ensuring that governments develop broader policy frameworks that provide fishing communities with a coherent set of policy signals so that that adjustment occurs smoothly and largely autonomously in the future. Such “passive” labour market policies are an essential complement to short term active labour market policies in ensuring that the adaptability and resilience of fishing communities is strengthened over time. The management arrangements for fisheries will also play a major role in ensuring the resilience of the fishing sector and it is essential that fisheries management policy and labour market policies are mutually supportive and coherent.

Next steps

26. The workshop proceedings will be published shortly.

E.2 In-depth special study – capacity adjustment

Progress and key findings

27. A draft paper on decommissioning schemes was presented to the 98th Session of the Committee and a revised draft [AGR/FI(2006)18/REV] is being discussed at the 99th Session. The paper provides:

- in-depth analysis of the economics of decommissioning schemes, focusing on the objectives of the schemes, the role of the management regime, price formation, the source of funding for the schemes, the role of expectations, and ex-post evaluations;
- five case studies of decommissioning schemes in OECD and non-OECD economies;
- an analysis of the political economy dimensions of decommissioning schemes, including the drivers for decommissioning schemes, the distribution of costs and benefits, the use of decommissioning schemes as compensation strategies to gain support for policy reform, and policy credibility; and
- a draft set of best practice guidelines for the design and implementation schemes.

28. The main conclusion of the report is that decommissioning programmes have been demonstrated to be a useful policy tool, but only in certain circumstances. They can accelerate the transition to a rationalised fishery managed on the basis of stronger use and access rights (based on output or input parameters) and improved ecosystem health.

- As part of a package of transitional assistance and management changes, they can provide a window of opportunity to help transform the nature of a fishery from one characterised by non-cooperative behaviour to one in which incentives are well-aligned and cooperation is the rational outcome of interactions between fishers.
- However, decommissioning schemes used on their own do not provide a long term solution to the problems of the “race-to-fish” incentive that remains in fisheries with poorly developed or enforced use and access rights. Unless complementary measures are taken to effectively manage the fishery, short term gains from the buyback are likely to be eroded as remaining fishers expand effort, previously inactive vessels and licences are activated, or as new entrants join the fishery.
- There are a number of factors to take into account when designing decommissioning schemes in order to ensure that they are allocatively efficient and cost-effective. In particular, the way in which the purchase prices of vessels or licences are determined (auctions, fixed rates, negotiation) can have a significant influence on the cost-effectiveness of schemes. There is a tradeoff to be made between administrative simplicity, transparency and value for money in designing schemes.

Next steps

29. The current draft paper will be discussed under Agenda item 9(ii) of the 99th Session of the Committee and will be revised following the receipt of comments from Delegates.

- **The advice of Delegates will be sought on the appropriate next steps for this special study with respect to the best practice guidelines and release of the study (see [AGR/FI(2006)18/REV]).**

E.3 In-depth special study – governance reform

Progress and key findings

30. The objective in this special study is to address the role of governance reform in moving towards sustainable fisheries management. The study will examine the institutional settings within which fisheries management policies are initiated, developed, refined and implemented across OECD countries, with particular focus on decision making structures and mechanisms and the role and influence of stakeholder groups in the policy process. This will provide a better understanding of the incentives facing economic agents and how they influence their interactions in the policy environment. Some of the key questions that will be addressed include:

- What are the institutional structures for national and international fisheries governance (building on the work done for the fisheries management costs study)?
- How are stakeholders represented in the governance and decision-making processes?
- What are the ingredients for effective and durable decision making?

31. Work on this special study is yet to commence.

Next steps

32. The project was originally intended to focus on the process of policy reform at both domestic and international levels. Delegates particularly requested that the project address the issue of reform of the high seas governance arrangements as a follow-up to the recent IUU project, in particular with respect to the RFMOs.

33. Delegates are advised that it is unlikely that both domestic and international aspects of governance reform can be adequately covered in the time available. Therefore, it is proposed that:

- Work on the political economy of domestic policy reform be folded into the case study work in Part A of the project; and
- This special study be devoted to the international aspects of governance reform, focusing on the economic and political economy issues of high seas governance. This will entail an examination of the allocative efficiency and cost-effectiveness of current international governance arrangements, building on past and current work of the Committee and other bodies.
- **The guidance of Delegates on this proposal is requested.**

34. If Delegates agree to the proposal, work on this special study will commence in mid-2007 with a draft framework paper being presented to the 100th Session of the Committee in October 2007. Delegates can assist the Secretariat in identifying suitable case studies for the in-depth special study on international governance reform. Delegates may also wish to consider whether a meeting of RFMOs and other interested parties might assist in providing information and feedback on the special study on international governance reform.

- **The guidance of Delegates on the proposal to hold a meeting of RFMOs is requested. Advice is also sought on when would be an appropriate time for such a meeting.**

E.4 In-depth special study – subsidy reform

Progress and key findings

35. This special study is intended to build on the previous Committee work on GFTs (*Financial Support to Fisheries: A Sustainable Development Perspective*) and will identify the obstacles to, and the drivers for, subsidy reform. Key questions will focus on:

- What has been the impetus for subsidy reform in various countries?
- How have winners and losers from subsidy reform been identified?
- What transition paths have been followed and how have losers from policy changes been included in the process and compensated (if at all)?

36. It was originally intended that this work be undertaken relatively late in 2008 following completion of the WTO fisheries subsidies negotiations. The special study is to provide a review of the WTO outcomes and examine how these are being translated into domestic policy initiatives. Completion of the Doha Round therefore represents that natural starting point to observe the process of policy change (if any) that occurs in Member countries as a result of the negotiations.

Next steps

37. Work on this project will commence in 2008, subject to completion of the Doha Round. Delegates are requested to provide an indication of potential case studies that they would like to either offer to undertake or bring to the Secretariat's attention.

- However, delays in completion of the Doha Round may mean that it is necessary to delay the start of the special study. If this occurs, it may be prudent to fold this special study into the 2009-2010 Programme of Work and Budget.
- **The advice of Delegates on this issue is sought.**