
Fisheries Subsidies and incentives provided by the Peoples Republic of China (PRC) to its Distant Water Fishing (DWF) Industry

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Abstract. *This paper provides information on the type of fisheries subsidies and incentives that the PRC provides to its distant water fishing industry (DWF) and fisheries sector generally. The paper highlights that it is the official policy stance of the Chinese government to assist in the growth, expansion and modernization of its DWF fleet, and this has been achieved through provision of direct subsidies and tax incentives as captured in China's revolving five-year plans and from unofficial sources.*

1.0 Introduction

A number of concerns have recently been expressed over the growth in the number of vessels from the People's Republic of China (PRC) operating in the WCPO tuna longline fishery (see for example <http://www.stuff.co.nz/business/industries/7955188/China-seizing-control-of-Pacific-tuna>). These concerns include the effect of increases in catch and effort levels on catch rates and the level of subsidies that vessels operated by Chinese companies receive. These two concerns are interconnected in that increases in catch levels lead to declines in catch rates, localised depletion and a reduction in the economic viability of other fleets, especially with a marked impact on the domestic fleets. Thus, subsidised fleets not only have a cost advantage over unsubsidised fleets but their expansion can also cause reductions in catch rates and revenues earned by unsubsidised fleets and render them economically unviable.

The purpose of this paper is to obtain an indication of the extent of subsidies received by Chinese companies operating DWF vessels. This is done by identifying and categorizing fisheries subsidies and incentives provided by the PRC to its distant water fishing (DWF) industry.

The paper draws from various reports, commentaries and communications presented by various interest groups (governments, non-government organization, civil society etc) many of whom have expressed concern over China's rapidly expanding tuna fishing fleet, the level of subsidies the fleet receives and the associated impacts on the biological and economic sustainability of tuna fisheries. More specifically, this paper takes particular interests in the work done by Sumaila et al (2010), which is perhaps the most comprehensive study on fisheries subsidies to date, including work done by Mallory (2012). A number of initial studies, particularly in the Forum Fisheries Agency (FFA) region that touch on Chinese fisheries subsidies for longline industry in the Pacific like Gillett (2005) and others are noted in view of most recent literature and information.

It is important to note that due to the lack of official data the figures presented are primarily estimates. A case in point with regard to the lack of official data is China's failure as a WTO member to provide accurate and complete data and information on its fisheries subsidies as required under the WTO Agreement on Subsidies and Countervailing Measures (SCM). In 2004 China provided only one notification covering the period 2001-2004. However, most of the information and data were incomplete, which prompted the United States (U.S) to take out a counter notification imploring China to play by the rules. A recent statement delivered by the U.S Permanent Secretary to WTO on 12th of June 2012 stated that China had not provided full and complete information pertaining to its fisheries subsidies as it is obliged to do as a WTO member (Punke, 2012).

Given the lack of official published information, the approach taken in this paper is to draw on data pertaining to fisheries subsidies and incentives provided in China's five-year plans, and from unofficial sources.

2.0 Background

Billions of dollars are spent each year by governments in the form of subsidies to support their fisheries management programs, fishing industry and fleets, both domestic and those that venture to fish internationally. Subsidies can have positive impacts on the biological and economic status of a fishery when they are used to assist operators to exit the fishery as part of a rationalisation plan. However, in the main, subsidies result in higher levels of exploitation than would take place in the absence of subsidies resulting in greater depletion of fish stocks, more severe overfishing and lower catch rates as well as impacting on the trade and commerce of competing countries, or enterprises (PEW Environmental Group, 2010).

Concerned with the deleterious effect of fisheries subsidies the WTO launched negotiations to clarify and improve disciplines on fisheries subsidies following the Doha Ministerial Conference in 2001 and continued on an on going basis until 2011 as countries could not reach agreement on key issues. Further details on WTO subsidies issues can be obtained from WTO website www.wto/english/res_e/publications_e.htm

The underpinning concerns in the break down of WTO Negotiations on fisheries subsidies relate to the fact that it is very difficult to ascertain accurate and consistent data on the amount of fisheries subsidies that governments provide. Various studies carried out since 2003 on fisheries subsidies have consistently reported the lack of access to reliable and consistent information on fisheries subsidies programs including little consistency in definition, data source or methodology across the estimates in many maritime countries has resulted in the estimates of the magnitude of government subsidies to the sector to be highly variable (Sumaila, 2012).

Table 1 below illustrates this showing the results of various studies conducted by various organisations. A comparison of the results of these studies demonstrates the continued challenge of actually determining the scope and size of fisheries subsidies globally at the same time they all illustrate the extent to which global fishing fleets are subsidised by governments.

Table –1 Global Fisheries Subsidies Estimates 2003-2007

Reported by	Year	Estimate per year (US\$ billions)
APEC	2000	8.9
WWF (officially reported)	2001	13
(Actual)		15 plus
FAO	2003	11-20
OECD	2010	6.4
Khan et al., 2006; Sumaila and Pauly, 2006, Sumaila et al. (2010a)	2006-2010	25-29

Source: Sumaila et al 2012

For the purposes of this paper, the categories of fisheries subsidies developed by Sumaila et al, 2010 which provided the basis for discussions at the WTO on fisheries subsidies negotiations are used to describe government subsidy programs. The two categories that are of particular concern are “capacity enhancing” – subsidies that contribute towards an increase in fishing capacity (such as subsidies for vessel construction, fuel, gear, price supports, port infrastructure) and “ambiguous” – subsidies that *may* lead either to fisheries conservation and

overcapacity depending on the context (such as fisher assistance program targeting social welfare and vessel buy-back program) (Campling et al, 2012).

The Chair of the WTO Negotiating Team on SCM in his first Chair's Draft text in December 2007 (WTO, 2007) included a prohibited list of sector specific disciplines. These prohibited subsidies fall primarily under the capacity enhancing category. This category is a subject of contention and concern at WTO, regional and national levels, and the concerns rise in respect to Chinese fisheries subsidies fall within this category.

Table 2 summaries prohibited fisheries subsidies by type as identified by WTO. There is now general consensus that a reduction in fisheries subsidies is necessary (Bowen, 2009), however the issue of which types of subsidies are to be banned and how those subsidies that are permitted to continue are to be disciplined remains the subject of ongoing discussion and debate.

Table 2 – Global estimates of prohibited/capacity enhancing subsidies (US\$ billions)

Type of Fishery Subsidy	Developing countries	Developed countries	Global Total
Vessel construction, refitting and modernization	2.14	0.73	2.87
Fishery development projects and assistance services	0.43	0.36	0.78
Fishery port construction and renovation	0.31	2.52	2.83
Transfer of vessels to third countries instead of being scrapped/vessel buy back	0.00	1.44	1.44
Marketing, processing and storage infrastructure plus price maintenance programs	0.76	0.63	1.39
Support on operating costs (fuel and license fees) of fishing and land based processing activities	1.48	4.88	6.36
Tax exemption programs	0.64	0.36	1.00
Income maintenance programs / fisherman assistance	0.03	1.35	1.39
Acquisition of fishing access to foreign waters	0.00	1.00	1.00
Total	5.79	13.27	19.06

Source: Sumaila *et al.*, 2010

From the total global capacity enhancing fisheries subsidy of US\$19.06billion, developing countries have contributed US\$5.79billion, whilst developed countries contributed US\$13.27 billion (see table 2). It should be noted that vessel construction, refitting and modernization; fishery port construction and renovation; and support for operating costs of fishing and land based processing activities are the top three (3) fisheries subsidies with the latter two being provided predominantly by developed countries.

3.0 China

It was estimated that China was the second highest spender on fisheries subsidy at US\$4.1billion in 2003 (The PEW Environment Group, 2010). In the context of growing commentaries and reports on China's policies and build up of its DWF fleet and fisheries interests, it is probably safe to assume that Chinese spending would have increased since then. The exponential growth of China's fish exports over imports since 1985 (Milazzo, 1997) could attest to this trend as this could most probably be driven by expansionist policies backed by government support, amongst other factors.

Government supports DWF fleet expansion

The five-year plans clearly indicate that China has taken on an expansionary strategy to bolster its place in global fisheries (Hongzhou, 2012). In the 10th five-year plan (2001-2005), the importance of DWF to China is noted and Chinese companies are encouraged to expand through searching for new markets and investing abroad (Mallory, 2012).

In its 11th five-year plan (2006-2011), the state central government's 'going global' strategy was further emphasised, as it announced that it intended to actively support domestic enterprises in 'going global'. This is a dual strategy of supporting 'national champions' to compete on the world market and to procure natural resources abroad. Official government information on the five-year plan is available here: <http://www.gov.cn/english/special/115y/index.html>

China is now considered as the largest DWF fleet in the world measured in the number of fishing vessels. In 2010, it was estimated the Chinese DWF fleet had 1899 vessels, whilst in 2009, an estimated 400 vessels targeted tuna, of which over 100 were purse seiners and other fishing vessels (Mallory, 2012).

China plans to increase its DWF fleet to 2,300 vessels by the end of its 12th five-year plan period (2012-2015) which represents an increase of 400 vessels on the reported 2010 levels. The DWF industry of China is now 70% privately owned having started off as entirely state owned, however a third is composed of large state owned enterprises, such as the Chinese National Fisheries Corporation (CNFC). Under the current five year plan, the expansion and modernization of Chinese DWF fleet is and will be supported through state subsidies (Mallory, 2012).

A repeatedly raised concern is that the Central Government may no longer have control of the activities of privately owned fishing enterprises, but remains committed to supporting the expansion of its DWF fleet by providing subsidies to aid their 'going global' strategy.

Given the above it appears clear that it is Chinese Central Government policy to assist in the growth, expansion and modernization of its DWF fleets.

Chinese government Support

There are three main forms of government support for China's DWF operations, direct subsidies- (mainly in the form of fuel offsets, subsidies on vessel construction); preferential tax treatment and payment for access fees.

In the course of compiling this paper, eight (8) types of fisheries subsidies and incentives provided by the Chinese Central government and Provincial governments to its fisherman and fishing enterprises were identified; however, there could be more.

Tax incentives

With the structural shift of the fishing industry from inshore to offshore since the early 1990s, the Chinese Central government has approved and added various tax incentives to support offshore DW fishing mainly in the form of tax deduction and exemptions. In brief, these tax incentives include:

- (i) **Corporate Tax relief.** The Chinese Government provides corporate tax relief in the form of income tax exemptions to Chinese domestically funded DWF enterprises. In 1997, the Department of Finance ("MOF") and the State Administration of Taxation ("SAT") announced the exemption of income tax for all domestically funded enterprises engaged in distant water fishing. This exemption

means that they are exempt from paying corporate income tax (currently levied at 25%) until the end of 2015.

Generally, all fishery projects that attract investment to bolster the fishing industry are exempted or a given a 50% reduction of corporate income tax. This is applied as long as the enterprise is engaged in the fishing project (Pricewaterhouse Coopers, 2012)

- (ii) **Tax incentives to shipyards.** Tax incentives are provided to shipyards in China who build and export fishing vessels. The incentives are in the form of a five year tax holiday and a five year half tax policy on the construction of the shipyard and export tax rebates (CFO Guide to doing Business in China, 2009). It is reported that most shipyards are closely connected to SOEs, and savings can be passed on in the form of less expensive vessels (Hamilton et al, 2011).

In addition preferential tax policy and credit conditions are provided to shipyards in general including policy support for shipyards that encounter restructuring and operating difficulties.

- (iii) **Tariff cuts on imported equipment.** Chinese companies, including DWF fleet and enterprises, have benefited from tariffs cuts implemented under the 11th five-year plan (Hu Yafeng, 2008). These tariff cuts have reduced the import duties payable on equipment for refitting, building and renovating vessels fitted with ultra-low temperature freezers including tuna longliners, and purse seiners targeting tuna.
- (iv) **Accelerated depreciation.** Fixed assets such as fishing vessels do attract accelerated depreciation since the Chinese DWF and industry are encouraged to modernize their fishing fleets, let alone the fact that fishing boats do suffer from constant vibration and are subject to corrosion, hence this tax incentive (Pricewaterhouse Coopers, 2012)

On-going monitoring of PRC's tax policies with China's Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") websites and reports would be a useful exercise as they are the responsible central government authorities in providing interpretation and implementation of the tax laws and regulations, including supervision and enforcement from time to time. Alternatively, websites of tax agents or consulting firms such as Pricewaterhouse Coopers, KPMG or Deloitte do provide useful information on tax and related issues.

Direct Subsidies

The Chinese government is reported to provide a range of direct subsidies to its fishing industry including:-

- (i) **Exploration, development of new fisheries, fishing technology & sector development.** During the country's 10th five-year plan (2001-2005), China invested over 10million Yuan per year on this subsidy type. The total subsidy spent on developing fisheries resources, and fishing technology for the five-year plan period is estimated to be over 50million Yuan (US\$7,950,900).
- (ii) **Fuel offsets.** China seems to fully support its fishing sector (both DWF and near shore/inland/aquatic) with fuel subsidies. As reported in a local news paper, a Ministry of Agriculture ("MOA") Official announced that in 2006 the government allocated 3.18billion Yuan (US\$580million) in fuel subsidies to fishermen and fishery enterprises that used motorised fishing vessels for near shore and inland fishing and aquatic production. Figures for the five-year period 2006-2010 for this subsidy

program were not disclosed. Based on the report cited above total fuel subsidies for near shore and inland fisheries over the period 2006-2010 are likely to be around US\$2.9billion. The article from the local news paper further quoted the MOA Official saying: “the ministry will strengthen the implementation of this subsidy policy in the country’s 12th five-year plan period (2011-2015)” (People’s Daily Online, March 08, 2011)

The implementation drive to realise Chinese government commitment on its subsidy policy for the 12th five-year plan can be seen from the various articles released by www.seafoodSource.com, a leading free international industry resource that provides latest news, market reports, analysis and commentaries on the global seafood industry. From its estimations from sighting several official sources and statements released by the MOA, newly released data from SeafoodSource (2013) revealed that in 2012 the Chinese central government spent US\$3.8billion in fuel subsidies to support the fishing sector usually paid to fishing vessel owners. This is an increase of 63.8% compared to the 2011 figure of US\$2.8billion. In the first two years of the 12th five-year period, the fuel subsidy spending by China now stands at US\$6.6billion.

With respect to fuel subsidies targeting DWF fleets, subsidies are based on annual fluctuations in oil prices and are paid retrospectively. Very limited information and data is provided on the actual subsidy spending for DWF fleets. Anecdotal evidence gathered in the course of compiling this paper however revealed that, a Chinese flagged tuna longline boat that is between 40-45m long attracts fuel subsidy from the Chinese Central Government. If the report is accurate with the base price set at US\$760 per kilo litre (Kl) of fuel, and that prevailing international price for fuel is US\$1,250/Kl, the Central government would pay the balance of US\$490/Kl in subsidy. It is claimed that a total of US\$279,364 (FJ\$500,000) has been paid annually in fuel subsidy particularly to those 40-45m Chinese flagged longline vessels based out of Fiji. Another source revealed that base price is 5,000yuan/Kl which is approximately US\$795.70/Kl for Chinese flagged fishing vessels.

The above information and data are best treated as coming from unofficial sources for now as they are mostly anecdotal in nature; however a study carried out for the Melanesian Spearhead Group (MSG, 2012), identified from discussions with China National Fisheries Corporation (CNFC) that fuel costs in excess of US\$ 760/Kl were fully reimbursed.

Apart from the MOA announcements as captured in new articles and commentaries, an analysis carried out by three Economists on CNFC clearly indicated that fuel subsidies is necessary for the company to remain profitable, and this could be the case for other DWF enterprise as well (Tao Y, Sun C, Zhou Y, 2010). The analysis revealed that in 2008 the CNFC received 25million Yuan (US\$3,975,450) from the Chinese Central Government of which 18million Yuan (US\$2,862,320) was in the form of fuel subsidies. For the company to remain profitable, fuel subsidy rose steeply in 2006 to the point it was equal to approximately half of the company’s net profit in 2008 (Mallory, 2012).

From the more recent data released by SeafoodSource (2013), CNFC continues to benefit from fuel subsidy provided by the central government. In 2011, it received US\$9.7million in fuel subsidies, while its net profit was US\$9.9million. It was also revealed that subsidy to build and renovate larger vessels was also received by CNFC. One other company (Shanghai based Kaichuang Marine) was reported to have received fuel subsidy totalling US\$12.9million, and made US\$8million in profit in the first 9months of 2012.

Generally, payment of fuel subsidies to DWF fleets effectively reduces the cost to a fishing vessel from the standard 19% of total revenue, to 12%, thereby increase the net profit to around 36%. Naturally, such favourable returns, further supported by low depreciation rates (5%), are driving reinvestment and expansionist policies.

- (iii) Access fees.** Access fees may not be an issue in any eventual fisheries subsidies disciplines at the WTO because the majority of Member state's appeared to agree with the Chair's 2007 draft text which explicitly stated that 'government to government payments for access to marine fisheries shall not be deemed to be subsidies within the meaning of this agreement' (WTO, 2007).

However, the issue remains open for debate and a minority of countries remain opposed to subsidised access arrangements.

For purposes of this paper, it has been noted from the MSG (2012) study that at least 50% of access fees are fully recoverable from the Chinese Provincial governments. This may generate savings of between US\$6000 – US\$18,000 per vessel under the standard Pacific Island Countries (PICs) charging system. It is not huge in overall cost terms, but were access rents to increase to US\$80,000 per vessel, as the MSG (2012) highlighted, this would be around 6% of the turnover.

- (iv) Favourable Industry Loan rates.** According to a survey conducted by the OECD in 2007 on subsidies for the shipbuilding industry, it was revealed that the Export-Import (EXIM) Bank of China provides export credits to borrowers of up to 80% of the value of commercial contracts (OECD, 2008). These credits are available to exporters of fishing vessels.

In addition to the EXIM bank of China, other banks like China Construction Bank, the Bank of China, the Agriculture Bank of China including Industrial and Commercial banks have been giving credits to investments in transportation and the infrastructure sectors in support of government policy. The shipbuilding and fishing industries both fall under these sectors.

The MOA would be the relevant Chinese Central government authority in seeking more accurate and detail information on direct subsidies and support to the fisheries sector and industry. However, this can be difficult for obvious reasons in language barriers and provision of mostly vague information.

4.0 Conclusion

It is the official Chinese government policy to assist in the growth, expansion and modernization of its DWF fleets and to use subsidies and incentives to achieve this aim. These aims are reflected in their five-year plans which detail its development agenda with regard to the DWF industry. Strategic support provided through these plans has accelerated the development of China's DWF industry and lead to a significant expansion of its fleet.

The extent and magnitude of the subsidies and other support given by the Chinese government to its DWF sector is significant and likely to provide the Chinese DWF with significant cost advantage over unsubsidised fleets. Further this support appears to be growing over time with total spending on subsidies increasing and new tax incentives being introduced under each new five-year plan. From this it appears that the concerns of operators of other fleets operating in the WCPO longline fishery that the subsidies provided to the Chinese fleet will render them economically unviable due to their cost disadvantage and the ability of the Chinese fleet to continue to increase catch levels and further drive down catch rates despite catch rates already being reduced to uneconomic levels are real.

In quantitative terms, what this means is that Chinese vessels will sustain higher levels of profit at more marginal levels of catch rate. They are also able to generate very rapid returns on capital. The net effect is that with an expansion fuelled by subsidy causing, in many cases, localised depletion which may be the direct result of specific access arrangements negotiated with some Pacific Island countries (PICs), the competitiveness of domestic non Chinese flagged vessels is further eroded. Without governmental intervention in this issue and broad and active affirmative support of PIC governments, the prospect for the survival of domestic non Chinese flagged vessels in the WCPO would be extremely challenging.

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