

# Subsidies and the 2003 Cod Fishery Closure in Canada

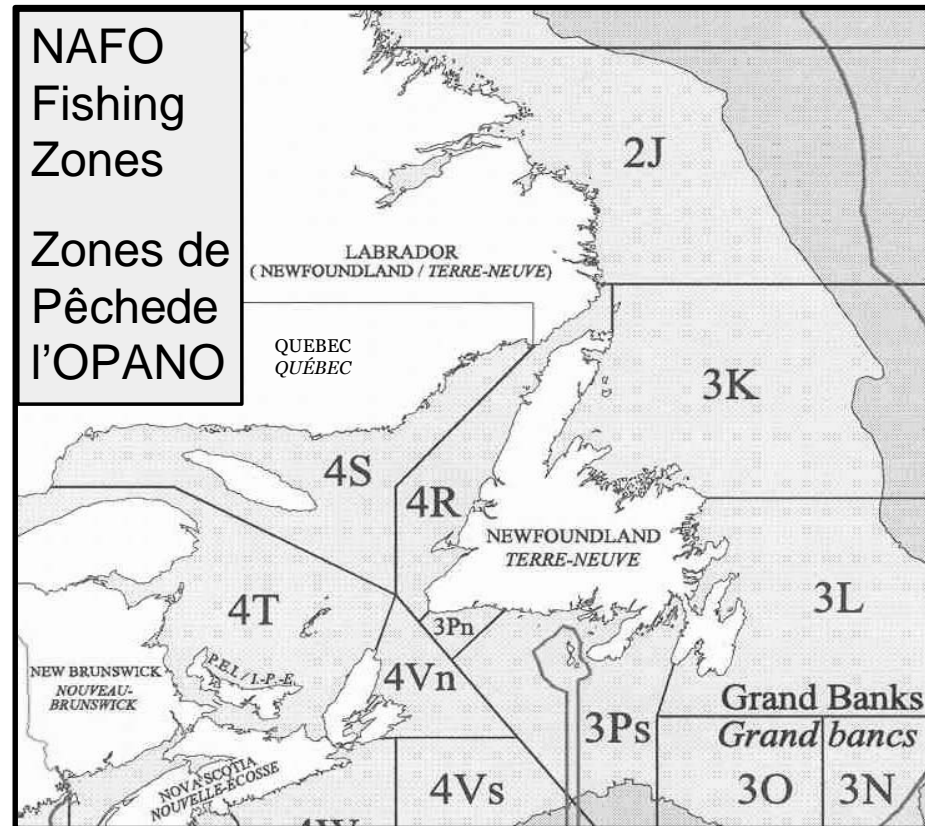
3<sup>rd</sup> OECD Workshop on Reforming  
Environmentally Harmful Subsidies

Paris, 5 October 2005

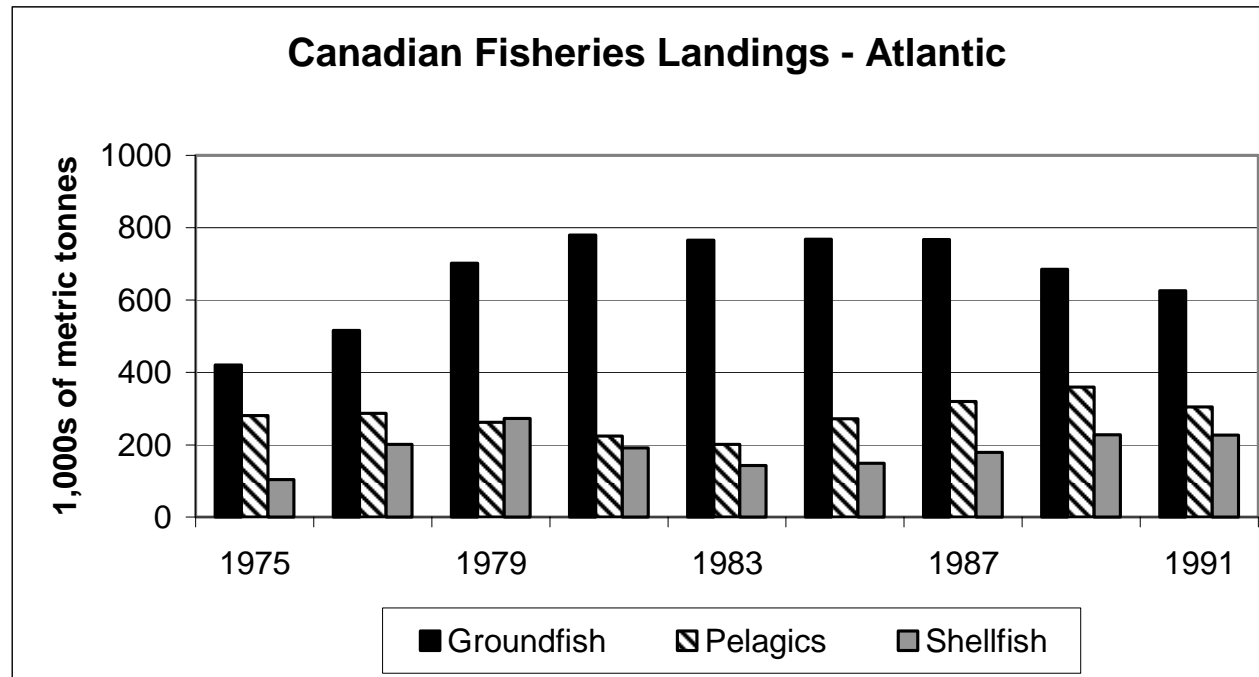
# Overview

- Recent history of groundfish fishery in Atlantic Canada and drivers for change.
- Roles for licence retirement programs (LRPs) and other support programs in response to closures in cod fishery in 1990s.
- Experience with LRPs, policy implications, and lessons for future programs.
- Approach and results of program response in 2003.

# Background



# History



- Until 1992, the groundfish fishery (of which cod represented more than half) was the foundation of the Atlantic fishery.
- Driver for management and policy change was environmental crisis: drop in abundance of northern cod stock followed by other cod stocks in other areas.
- Cod fishery closures began in 1992; some cod fisheries were subsequently re-opened in late 1990s, but at much lower levels.

# 1992-2002 Response

- Comprehensive government response to broadly address:
  - Immediate income assistance for affected fishers and plant workers (social adjustment);
  - Long-term assistance to enable regional diversification (economic adjustment);
  - Economic efficiency and resource conservation (industry restructuring) with emphasis on self-adjustment and capacity reduction.
- Response included three programs each with their own LRP components and objectives:
  - NCARP (1992-1994);
  - TAGS (1994-1998);
  - CFAR (1998-2001).
- Response also included changes to fishing licence policies:
  - Cancelled inactive groundfish licences;
  - Distinguished between core (professional, diversified) and non-core licence holders (rising shellfish quotas were directed only to core licence holders);
  - Non-core licences were made non-transferable and expired when the licence holder ended participation in the fishery.

# 1992-2001 LRPs

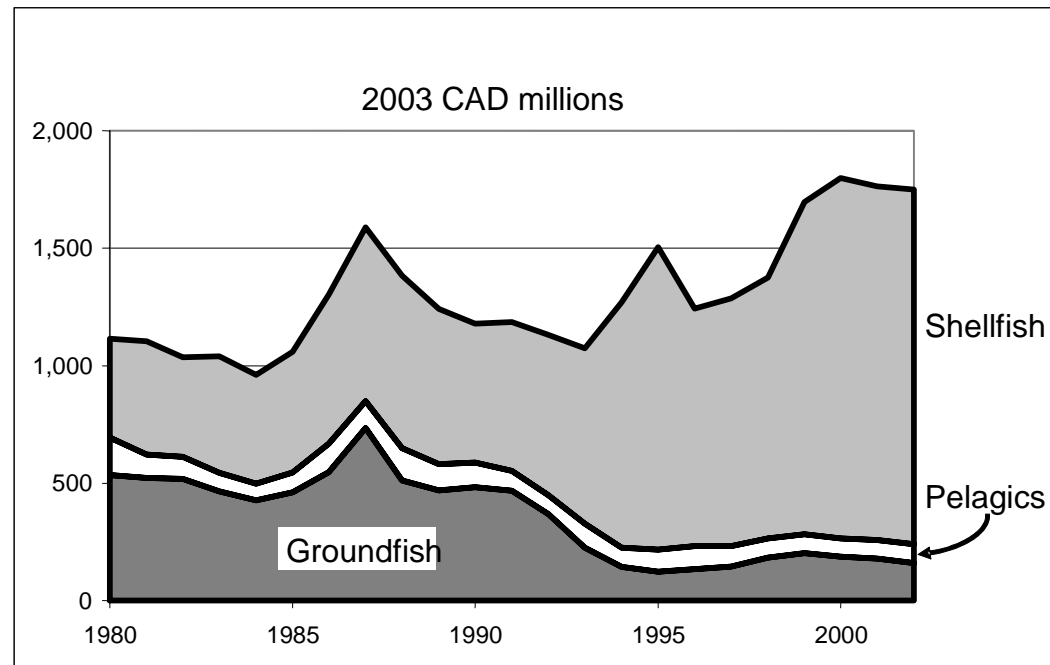
Program Components/Year	NCARP 1992-1994	TAGS 1994-1998	CFAR 1998-2001	Total
Income Replacement	484	1 750	315	2 549
Training and Counselling	333		0	333
Vessel Support	15	12	0	27
Early Retirement	31	28	85	145
<b>Licence Retirement</b>	<b>40</b>	<b>60</b>	<b>230</b>	<b>330</b>
Economic Development	0	50	100	150
Total	903	1 900	730	3 533

- Three LRPs removed 3 686 groundfish licences at a total cost of CAD 330 million.
- Changes to licence policies will have removed approximately 2 000 more groundfish licences when all non-core licences have expired.

# Implications and Lessons

- LRPs were expensive.
  - Licence value included not only stream of fishing revenues, but also the vessel and gear, and value of access to other programs (e.g. employment insurance).
- Licence policy changes (less expensive) were just as important as LRPs in industry restructuring.
- LRPs were designed only in anticipation of short-term closures.
  - Industry restructuring (economic efficiency, resource conservation) is less important in the case of long-term closure.
- LRPs were designed for licence reduction, not capacity reduction.
  - Criteria for LRP eligibility sometimes emphasized dependence on the fishery over capacity.
  - Auditor General noted lack of means of assessing capacity reduction achieved.
- Social and economic adjustment programs were important, but LRPs were not particularly well suited for this role.
- Cost and earning data and other means of assessing performance of LRPs against specific or broader objectives were not developed.
  - However, analysis of gross earnings alone revealed that those fishers who were most dependent on cod were also those fishers who earned the least from fishery and therefore were not the right target for LRPs.
- Risked creating expectations for ongoing or future assistance.
  - Reduced incentives to self-adjust.
  - Risk of a precedent for shellfish fishery (see next slide).

# Lessons continued



- CFAR (1998-2001) was announced as the last opportunity for fishers to leave the industry with government assistance.
- Avoiding a costly precedent: similar government response to any future downturn in shellfish fishery would be prohibitively expensive.



# 2003 Closure

- Almost all remaining cod fisheries were placed under long-term closures in 2003.
- Cod fishery by then was miniscule in value but still involved 3 900 active licence holders in regions with high unemployment, low incomes (including from the fishery), and low educational attainment.
- Government response driven by fiscal restraint but also by commitment to provide regional economic diversification assistance.
- Long-term nature of closures meant industry restructuring was no longer as important.

# 2003 Response: No LRP

- Two-year response program emphasizing other social and economic adjustment tools:
  - CAD 44 million community-based economic development to promote short-term job creation
  - CAD 6 million to expand scientific research on how seals interact with cod stocks
  - CAD 27 million Temporary Fisheries Income program for fishers and plant workers whose EI benefits expired prior to community-based program was implemented.
- Government was also in final stages of revising its Atlantic Fisheries Policy Framework.
  - LRPs were deemed inconsistent with AFPR objectives of sustainable use, self-reliance, and predictable fisheries access and allocations.

# Conclusions

- *Who and what are the main drivers for subsidy reform?*
  - Whole-of-government decision based on cost and evaluation of LRPs effectiveness relative to alternative policies and programs amid changing circumstances.
- *What are the main obstacles to subsidy reform?*
  - Feelings of stakeholder entitlement based on status quo, exacerbated by regional political imperatives.
  - Difficulty getting other government departments to bring their socio-economic adjustment tools and programs to the table.
- *What approaches are most effective in reforming subsidies?*
  - Performance measurement, external audit, and consideration of broader tool kit of policies and programs to achieve same objectives.
  - Strong political leadership, as well as leadership within bureaucracy to bring all departments to the table.
- *What are the results of subsidy reform? Who are the main winners and losers?*
  - Conservation benefits and improved economic efficiency in the fishery
  - Communities benefit from more appropriate forms support; those who lost the most were those with the least to lose.