

## Executive Summary

Over the past decades, global markets for fish and fish products have changed considerably and continue to do so. This is a never ending and ongoing process in which operators along the fisheries value chain (fishers, fish farmers, traders, processors and retailers) are searching for new opportunities, reduced production costs and profitable investments in an increasingly internationalised business environment. New products and production methods, fragmentation and outsourcing of production processes, and changing value chains are characteristics of the ever evolving nature of global fish markets. The particularity about fisheries is that it is part of a global commons that demands regional and international co-operation to ensure that fish stocks are exploited in a sustainable and responsible way.

The process towards ever increasing market interaction has added substantial benefits to the world economy and can continue to do so while presenting a number of policy challenges for governments. The key to meeting these challenges, without compromising the advantages that this process gives rise to in terms of increased welfare, lies in developing and implementing fisheries management frameworks that can accommodate globalisation without compromising resource sustainability.

Concurrently, the process of globalisation is an important purveyor of increasing wealth among nations. The fisheries sector has contributed to this process and, as evidenced in this study, there is still room for further economic growth stemming from the more efficient use of fisheries resources, from more liberal trading regimes and by keeping in check certain risks that the globalisation process may generate.

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### *The fisheries value chain*

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When the Fisheries Committee embarked on studying fisheries globalisation, it was agreed that a value-chain approach would be beneficial for the analysis. The value-chain approach provides a framework that helps organise the linkages among its constituent elements (harvesting, aquaculture, processing, and retail).

The fisheries value chain consists of the harvesting, aquaculture, processing and retail sectors. Each of these sectors has certain specific characteristics. Globalisation manifests itself in a number of ways within each element of the fisheries value chain, as well as among them.

In **harvesting**, globalisation is driven by the need to secure access to fish and to ensure a return on capital investments in vessels. In cases where domestic fisheries management frameworks have limited access to domestic resources, access to foreign or high seas resources is one way of deploying capacity, including through access agreements, joint

ventures, setting up foreign operating companies, etc. Fishing on the high seas may also be a way to expand activities, for example fishing under and in compliance with an RFMO regime. While fishing outside of domestic Exclusive Economic Zones (EEZs) is still a marginal activity (high seas catches contribute less than ten per cent of global catches) many vessels do steam in and out of domestic EEZs in particular in areas where EEZs are contiguous and where stocks are shared. The principal concern for legal harvesting operators when seeking opportunities to globalise is associated with how secure fishing rights to the resources are and, more generally, the degree of stability of management frameworks.

There are potential important benefits of having fleets operating internationally, including better use of investments (e.g. seasonality in fishing patterns, comparative advantages). For policy makers, challenges exist in the areas of access to resources, domestic fisheries management settings including how overcapacity is dealt with, and high seas governance. Above all, and against the background that many of the world's fish stocks are either fully exploited or overfished, a key policy objective for international fisheries is to ensure that stocks are sustainable. At a very general level, the quest for increased access to resources makes the world's fisheries a shared problem that requires action at the global and regional levels. To reap the benefits and opportunities of globalisation, global fisheries need to be managed sustainably. Developing and developed countries need to reassess domestic fisheries management and development needs of the fisheries sector while strengthening fisheries governance and associated institutions. As an immediate action, policy makers should eliminate fleet overcapacity and subsidies for fleet operations; provide development assistance and capacity building for developing countries in particular to improve governance, and when negotiating fisheries access agreements, these should be "clean" of interference from other policy domains. The longer term international fisheries agenda include strengthening RFMO reform, international standards for management and more appropriate port access regimes.

**Aquaculture** continues to grow in importance for global fisheries markets. This is likely to continue as demand for fish is increasing against the background of increasing population and incomes, and as capture fisheries are increasingly fully exploited. Globalisation in aquaculture has occurred mainly through foreign direct investment in the sector (both directly by aquaculture producers and expanding into other parts of the value chain, such as, for example, feed processors) and through outsourcing of production processes. Aquaculture companies globalise to seek increased profits and size (economies of scale) and to gain control over inputs (e.g. feed). In aquaculture, size matters as modern aquaculture is knowledge- and capital-intensive. Differences in production and transport costs are also important elements influencing investor decisions regarding geographical location of production. However not all aquaculture is industrial/intensive in nature. In many developing countries, aquaculture operations are small-scale and extensive, which brings its own set of challenges in reaping similar benefits in production and trade. In particular small-scale producers may require access to finance, capacity-building and technology transfer to be able to meet the requirements of export markets.

Policy makers need to ensure that aquaculture can benefit from the opportunities globalisation brings, while minimising the potential hazards (mainly environment-related externalities) associated with fish farming. This requires regulation and standard setting in a number of areas including environment, the use of space, governance of the industry, food safety and animal health and research. Aquaculture strategies and action plans can make an important contribution in this respect to ensure sustainable production, market

acceptance and the ability for products to enter into trade. However, only some countries heavily engaged in aquaculture have developed national plans and more work towards developing and implementing aquaculture plans is required.

Globalisation in the **processing** sector takes place along three principal paths: 1) outsourcing of production to outside companies; 2) expansion of a company's base (setting up companies abroad, acquisitions, etc.); and 3) global sourcing of raw material. Globalisation is the outcome of the search by processors for profit, stability and security in raw material supply and quality, while simultaneously seeking opportunities to reduce costs in an industry characterised by increasing competition including from other foodstuffs. The regulatory environment in the processing sector is primarily concerned with trade measures, seafood safety standards and traceability. For developing countries it is often a considerable challenge to meet technical standards due to costs and lack of know-how and predictability in the face of rapidly evolving world standards. Likewise, as tariff peaks and escalation is present for a number of products in OECD markets, developing countries may not find the trading environment enabling for their processing sector. This may mean that developing countries may not fully reap the benefits of globalisation.

Key global policy challenges relate to market access and the capacity of especially developing countries to meet increasing numbers and stringency of standards to ensure food safety and quality and sustainability requirements. Both developed and developing countries are affected by tariff peaks and escalation. There is a need for substantial progress in reducing tariff and non-tariff barriers and ensuring technical assistance and capacity building to developing countries to cope with the proliferation of standards. Finally, as expansion through acquisitions and leveraged buy-outs increasingly feature in the strategies of large investors, a more transparent and deregulated investment climate would help ensure that the opportunities brought by globalisation are realised.

In the **retail** sector supply structures for the sourcing of fish are changing to fit the demands of retailers for consistency and volume from suppliers. The fish retail sector is experiencing both expansion and consolidation as globalisation proceeds. As retailers have direct contact with consumers, they are vulnerable to issues that may challenge their reputation and retailers are finding it important to protect or increase the value of their brands. Retailers are increasingly held accountable for local and global needs and concerns, such as social responsibility, environmental impact and sustainability, which affect the entire value chain. This is in particular the case in markets where retailers are highly concentrated and where brands play a significant role.

Powerful retailers are supplementing already existing government standards through the use of private labels and in-house standards (for example, through buying specifications) in the areas of food safety, quality and the environment. Such private standards could be leading the industry into adopting more stringent levels of standards than may currently be applied by public authorities. The key policy challenge in relation to the retail sector is nested in how to respond to the proliferation of private sector demands for more stringent standards. At issue is the complexity due to the number of and relationships between standards and labels and how to ensure truthfulness in marketing. In this respect, the role of public policy may also be to assist developing country producers in meeting standards in order to benefit from globalisation.

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### Benefits and policy challenges of fisheries globalisation

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For centuries fleets have been fishing all over the world and since the invention of freezing technology, fish has been traded extensively to align supplies and demand across fish resource rich and poor countries. As such, globalisation is not new to the fisheries sector and developments over recent decades in terms of increased trade and harvesting across frontiers have brought substantial value to the fisheries economy. What is new is the speed with which changes are taking place, the increased interdependence among markets and the risks to sustainability as fish stocks become overexploited. Hence, among policy makers, there is a feeling of urgency to react to developments.

At the OECD,<sup>1</sup> it is generally recognised that open economies underpin growth and improvements in material living standards. Globalisation in the fisheries sector contributes to such effects. Consumers in many countries have better access to a diverse variety of fish, and, all other things being equal, at a lower price. Concurrently, companies can use resources more efficiently, exploiting comparative advantages and scale effects.

A characteristic of the benefits of fisheries globalisation is that they are shared among many, i.e. the welfare gains benefit consumers, processors, distributors, etc. and are not particularly tractable. Conversely, the costs of fisheries globalisation, most often in terms of structural adjustment and overfishing, are fairly easy to identify and tractable, are more local in nature and focused on a few well identifiable groups, e.g. fishers and fish processing workers. Against that observation the final chapter of this study considers a number of policy challenges that have been identified as being particularly urgent for policy makers to address. These are:

- i) the implementation of effective governance and management frameworks;
- ii) managing fishing industry adjustment;
- iii) policy coherence;
- iv) compliance with existing international rules and regulations and setting new standards where appropriate;
- v) market access for fish; and
- vi) food safety (fish and fish products).

Addressing these challenges in an effective way would allow for additional benefits from globalisation to accrue to the fisheries sector and to the economy at large.

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### Key messages

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This study, the discussions in the Fisheries Committee and the outcome of the Workshop on Challenges and Opportunities of Globalisation<sup>2</sup> form the analytical base for the work on fisheries globalisation. A number of key messages have emerged from this work:

- The globalisation process has brought significant net benefits to the world economy, measured by a substantial increase in global wealth. The effects in terms of benefits and costs of globalisation, including in fisheries, can be dispersed or concentrated and may also be short- or long-term in nature. Globalisation brings increased competition including for fisheries resources. In fisheries, long-term or sustained benefits will only accrue if sustainable and responsible fisheries management and governance systems for both national and international fisheries are in place.

- In developed economies with alternative opportunities and flexible markets, globalisation generates wealth and jobs, and the fishing sector continues to contribute to this. There are fishing communities, however, with few alternatives to fishing and where fishing is a basic and unique source of income. This is predominantly, but not exclusively, the case in developing countries; the attention of policy makers is needed to the particular value the fisheries sector contributes in such cases.
- The policy challenges of dealing with globalisation in fisheries are anchored in formulating, developing, adapting and implementing management frameworks that can accommodate the pressures stemming from the process of globalisation without compromising the sustainability of the resource. Key features of these challenges include the implementation of appropriate management models, dealing with structural adjustment and garnering political will. Policy makers will constantly be challenged as new, unforeseen, risks turn up and there will be a continued need to identify and address new policies to address externalities. Fisheries management models that provide flexibility for fishers and resilience for fishing communities are most likely to provide successful outcomes.
- As domestic fisheries sectors adapt to new market realities, structural adjustment policies that bring into play a broader range of policy areas than just fisheries will be needed. This includes, for example, retirement, social policies, education and re-training that can effectively assist fisheries in smoothing the path to new and viable occupations. A key challenge in this respect is the ability for policy makers to work across policy communities to develop a coherent and comprehensive response to adjustment.
- For OECD fisheries policy makers, building communities resilient to both natural fisheries fluctuations and adjustment pressures should be at the core of the policy response, including a strategy of reducing dependence on the fishery, upgrading workforce skills and improved mobility, both geographically and into other professions.
- As globalisation advances, the international governance architecture for fisheries and aquaculture products is challenged; a fresh look at the present governance frameworks combined with increased speed of national implementation of already existing provisions is needed. This concerns high seas governance and IUU fishing, and more broadly overfishing in national EEZs. While considerable progress has been made in recent years in containing the risks of IUU fishing it remains a challenge for policy makers as long as illegitimate fisheries activities are profitable.
- In light of increasing demand for fish and fish products, countries that are active in the field of aquaculture should actively develop and implement or enhance national aquaculture plans. Such plans can underpin the further development of sustainable aquaculture and play a more vigorous contribution to globalisation.
- Developing countries are an increasingly important factor in the internationalisation of fisheries markets. Transfer of technology and development assistance (in particular management knowledge) from developed to developing countries is “help to self-help” as OECD markets will increasingly be dependent on supplies of fish and fish products from outside sources.
- The increasing integration of markets, combined with free flow of fish and fish products across international borders, may spread new pathogens and diseases. HACCP and traceability systems provide the best guard against such risks and public authorities have a vested interest in ensuring public safety. Private companies, in particular in processing and

retailing, which have a major stake in ensuring that their reputation is not compromised, have also undertaken a major effort in ensuring that these risks are contained, for example through buying specifications that are more stringent than standards set by governments or internationally agreed standards, e.g. Codex Alimentarius.

- However, there may be a need for more international co-operation to ensure that private standards are not an unnecessary *de facto* market access barrier.
- As globalisation provides opportunities to relocate fleets and processing facilities, or outsource processing to other countries, there is a potential for such activities to seek shelter in countries with low or no environmental and social norms, including a lack of respect for international fisheries commitments. It is important to note that globalisation is not reason for poor norms; it is the norms themselves that are not up to date which may be coupled with the reluctance of governments to enforce those norms. The more global the fisheries value chain becomes, the more important it is to ensure a coherent and internationally co-ordinated response, and compliance with the internationally agreed rules framework.

Increasing growth through more liberal trading, investments and services regimes are important for overall welfare to increase and can be further sustained by sustainable and responsible fisheries and aquaculture. Global interdependence is likely to continue to increase and hence new challenges and opportunities will regularly arise. For fisheries policy makers, it is important to take on that challenge as policy inertia is likely to lead to further problems for the resource base. Central in setting a future agenda in which fisheries and aquaculture can thrive and benefit from the opportunities that globalisation can offer, is a more resilient national and international governance framework for fisheries management, trade, investment and service provision, and for public health issues. Given the limited public resources available, prioritisation of policy action and international co-operation are important.

### Notes

1. *Sources of Economic Growth in OECD Countries* (OECD, 2003).
2. *Globalisation and Fisheries: Proceedings of an OECD-FAO Workshop* (OECD/FAO, 2007).