TRADE NEGOCIATIONS STUDIES:

DOCUMENTS RELEASED UNDER THE ACCESS TO INFORMATION ACT,

MAY 21, 1986

STUDY NO. 19:

International competitiveness profiles: the fisheries sector.
(Dept. of Fisheries and Oceans. September 1985)

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~~CONFIDENTIAL~~

INTERNATIONAL COMPETITIVENESS ~~PROFILES~~

The Fisheries Sector

Section I - Scope of Sector and its Place in the Economy

- Production in the fisheries sector accounts for 0.3 per cent of national GDP and 1 per cent of national employment. On a regional basis, its importance is more pronounced with GDP shares ranging from 2-6 per cent and an employment share of 5 percent in Nova Scotia, Newfoundland and P.E.I.

- Real fishery GDP increased by 55 per cent from 1974 to 1982 due to increased resource access (particularly since the declaration of the 200-mile limit in 1977) and the development of new markets.

X - Canada is the world's largest exporter of fish products. Total exports in 1984 amounted to $1.6 billion while imports were $500 million.

- The fisheries sector is heavily export-oriented and committed to substantial liberalization of trade barriers. In 1984, 80 per cent of fisheries production was exported and the main markets were the United States (61 per cent), Japan (15 per cent), and the EEC (13 per cent).

- In 1984, imports made up 63 per cent of the $719 million apparent Canadian market and 56 per cent of this amount originated in the United States. The remaining 44 per cent of imports originated from a broad range of different countries.

- Tables I-III provide statistical details.

Section II - Structural Characteristics

The fisheries sector plays a relatively minor role in the national economy but, at the regional level, accounts for an important share of activity in several provincial economies and in hundreds of rural or remote communities where alternative employment opportunities are limited. The sector also suffers from low labour productivity: 20 per cent of Newfoundland's goods-producing employment are ~~employed are~~ engaged in this industry but accounts for only 6 per cent of its GDP. Table IV indicates that the industry's activity is concentrated in Nova Scotia (28 per cent of total value added), British Columbia (26 per cent) and Newfoundland (22 per cent). The industry also plays an important role in New Brunswick, P.E.I. and Quebec at the sub-regional level.

As is the case for many manufacturing sectors, a small number of fish processing establishments (i.e. plants not firms) is responsible for a large proportion of total production and employment: in Table V nine per cent of establishments is shown to be responsible for about one-half of total output and employment.

Table VI shows that the six largest firms accounted for 57 per cent of the industry's estimated gross sales in 1984. The little foreign ownership that does exist is mainly of U.S. or Japanese origin.

The industry is relatively unconstrained in making decisions on where to obtain raw material inputs. Unprocessed fish is the most important input which is mainly obtained from Canadian fishermen.

The sourcing of inputs and destination of output is generally based on the principle of maximizing net income to the Canadian profit centre although this would not be the case for some smaller secondary processors based mainly in Quebec and Ontario that are controlled by large U.S. food processors.

Little investment in research and development is carried out by the fishing industry - about $2 million yearly. On both coasts, processors and harvesters have benefitted from some transfer of technology from Japan.

The East Coast processing sector is currently undergoing a major restructuring of operations which encompasses some direct government involvement in equity participation, while the government is considering measures to bring about a rationalization of the West Coast harvesting sector.

Key strengths relative to major competitors.

Atlantic Fishery:

- excellent access to fish resources that are either stable or increasing - competitors' access stable or declining
- improvements in production and regulatory structure occurring
- proximity to the U.S. market

Pacific Fishery:

- relatively high returns from premium products (e.g. salmon)
- reputation as a high quality supplier

Freshwater Fishery

- 90 per cent of production is exported.

Key weaknesses relative to major competitors.

Atlantic Fishery:

- excess production and harvesting capacity generally, and excess harvesting capacity in some fisheries
- need to broaden product mix to include more higher value products and higher and more consistent quality to increase flexibility to respond to changing markets
- need to improve marketing discipline and strategies
- low margins

Pacific Fishery:

- excess harvesting capacity
- reduced resource availability due to overfishing
- financially poor processing sector
- processing costs high relative to competition

Dynamic Factors:

- a competitive exchange rate in relation to the U.S. dollar
- fishery investment flows on both sides of the border
- sensitivity to price changes in substitute protein products

Section III - Current International Market Conditions

The situation facing Canada's fishery is paradoxical. The healthy state of the resource provides a substantial opportunity to increase production and exports. However, substantial constraints adversely affect the industry's performance: a poor financial state, limited market prospects and stiff barriers to increased penetration of new foreign markets particularly in the EEC, which maintains high tariffs, tariff quotas and restrictive licensing, and in Eastern European and developing countries where imports are controlled by state trading monopolies.

The matter is further complicated because extension of coastal jurisdiction in 1977 forced several foreign countries (the U.K., Spain, West Germany, etc.) with large distant water fleets to reduce their activity in the 200-mile zones and to restructure their fishing operations. The significant economic and social costs involved have made fisheries policy a sensitive political issue in such countries and have aroused protectionist sentiments as well as feelings of resentment against allocations policies that have been tied to trade concessions. Such concessions have been ad hoc and sustainable only with sustained allocations.

The Canadian fishing industry's dependence on exports, combined with the location of much of the industry in Atlantic Canada where incomes are low and where few alternative employment opportunities exist, are also important factors which must be taken into account in the development of an appropriate trade strategy.

United States

Canadian exports to the United States last year amounted to $972 million. Our major export development strategy in the United States is, in the short term, defensive. We must hold our current 25 per cent share of U.S. fish imports in the face of increasing price competition from Iceland, Norway and Denmark. It will be necessary to develop new markets by broadening the product mix to include more high quality product forms so as to increase the flexibility of the industry in responding to changes in market demand. Another constraint which will determine the level of Canadian exports to the U.S. will be the expansion of the fisheries within the U.S. Major objectives of the U.S. government include the reduction of its fisheries trade deficit and the development of its Alaskan groundfish fishery.

A further constraint to be considered in developing a strategy to secure and enhance Canadian access to the U.S. market is government financial assistance programs for the fishing industry. Canadian dependence on and proximity to the U.S. market thus renders Canada more vulnerable to U.S. protectionist actions, in particular anti-dumping and countervailing duties, than more heavily subsidized exporting nations such as Norway.

Almost all fishery imports enter the U.S. on an MFN basis and most are free of duty. Duties in place rise markedly with the degree of value-added reaching as high as 15 per cent, thus inhibiting further processing of Canadian products for export. Eighty per cent of Canada/U.S. fisheries trade occurs under tariff rates of 3 per cent or less. Selected U.S. tariffs are shown in Table VII.

A few non-tariff measures (NTMs) also exist. Health, sanitary and conservation regulations have acted as barriers as has the "Buy America" program. The U.S. also provides financial assistance to its fishing industry in terms of production and market development aids, loan guarantees for processing plants, provision and maintenance of harbour infrastructure and funding for vessel acquisition and repairs.

Japan

Japan became Canada's second largest market after the U.S. in 1984, importing $233 million worth of Canadian fish products. The Japanese tariff structure has few duty free rates and not all the tariff items of importance to Canada are bound against increase. The General Preferential Tariff System (GSP) covers about 12 per cent of Japan's imports. Selected Japanese tariffs of interest to Canada are presented in Table VIII. Some of these are considered nuisance tariffs on products not produced in Japan such as the 12 per cent duty on herring roes.

Japan also maintains illegal quotas on important fish imports such as herring, cod and squid, licensing restrictions, various assistance programs and stringent sanitary and labelling regulations.

European Economic Community

The EEC, with its 300 million population, currently is Canada's third largest market. Exports to the EEC in 1984 were $215 million, slightly lower than in previous years owing to an unfavourable exchange rate for Canada vis à vis European currencies. The EEC's tariff structure is also considered to be a barrier to trade for Canadian fish products. Table IX indicates selected EEC 1987 tariff rates ranging from 2 per cent to 20 per cent.

The GSP scheme of the EEC grants reductions of 30-100 per cent on 32 fish products from developing countries and least developed countries are granted a complete exemption from tariffs. Lomé Convention countries are granted duty-free treatment on some products and certain Mediterranean and African countries are accorded preferential treatment under bilateral association accords. But it is the preferential customs treatment applied to certain EFTA states (Iceland and Norway) which is potentially the most damaging factor in promoting Canadian exports to this market.

Canada negotiated a long-term fisheries agreement with the EEC in 1981 under which tariff quota rates were reduced on products of special interest to Canada in return for allocations in the Canadian fishing zone. This arrangement has not resulted in the market access gains originally anticipated.

The EEC has a number of non-tariff measures which distort trade:

1) a reference price system
2) trade-distorting domestic aids
3) export subsidies

As stated earlier, the main constraint on expanding trade with the EEC is the unfavourable exchange rate. The elimination or reduction of the differences in tariff rates on groundfish products between Canada and our major competitors (Iceland and Norway) which enjoy preferential treatment and removal of the application of the reference price system on imports could mitigate the disadvantage that Canadian products face in this market.

The enlargement of the EEC by the entry of Portugal and Spain may also put Canada at a disadvantage. Presently, Portugal maintains high duties on fresh, frozen, smoked and salted products; many of these products are also subject to global quotas; and all products are subject to import licensing. Recent economic difficulties have resulted in an import surcharge being applied to many imports. All imports into Spain require an import license or declaration and, since December 1976 all marine imports are subject to discretionary licensing to ensure that fishery imports are only supplementary to catches of the Spanish fleet. Spain also employs prohibitions and quotas to regulate imports. Financial assistance is available to the harvesting and processing sector and the government subsidizes prices of some fishery products on a seasonal basis.

While these trade barriers may be modified with the application of the EEC's Common External Tariff and import régimes, Canada may require compensation if Portugal and Spain are permitted by the EEC to raise bound tariff rates on certain items to ease the impact of their alignment with the Community.

Canada

The Canadian import régime for fish products, unlike that pertaining to agricultural goods, is remarkably open with imports accounting for 63 per cent of the apparent Canadian market. Canada allows duty free entry for many fish products although processed and prepared products are generally dutiable at higher rates. Virtually all imports enter on an MFN basis (Table X lists selected Canadian tariffs). Neither licensing nor quota restrictions are applied to imports or exports. Although export subsidies are not provided, the domestic fishing industry has benefitted from financial aid in the form of loans and equity infusions to carry out major restructuring efforts and grants or loan guarantees under regional development programs. A notable exception in this regard is the absence of EDC financing which is particularly required for many Latin American markets.

There are other domestic policies which are considered by certain countries to influence trade flows. These include:

1) fishing zone allocations in return for market access benefits
2) over-the-wharf and over-the-side sales policies
3) state trading operations (e.g. Canadian Saltfish Corporation)

Table XI compares Canadian tariff rates on fish products with eight other countries.

Section IV - Potential Impact of Trade Liberalization

A. Bilateral Agreement with the U.S.

EXEMPT-
15(1)

Prepared Fish Products

EXEMPT.

15(1)

EXEMPT

15(1)

x

EXEMPT

15(1)