

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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WORKING PARTY ON TRADE IN CERTAIN NATURAL-RESOURCE PRODUCTS

Remarks on MDF/W/26 (Background Note
Submitted by Canada) Submitted by Iceland

Addendum

At previous meetings of this Working Party the Icelandic delegation has underlined the absolute necessity of going seriously into the questions of government assistance or subsidies at all levels as well as practices where fishing rights are exchanged for tariff concessions. If this were not done properly the outcome of our exercise could be pretty misleading and meaningless.

In light of this I wish to thank the secretariat for the document MDF/W/29 and the Canadian delegation for the effort which they have made by providing us with the Background Note MDF/W/26 of 28 March 1985 giving us some insight, from their point of view, into the jungle of quantitative restrictions and governmental financial assistance practices, implemented by certain contracting parties.

At this stage, I do not wish to go into all details of this Background Note but I feel compelled to comment on some of the Chapters already now.

I will start with Chapter A II, Iceland, on pages 3-4 of this document:

Sub-item (b) on government financial assistance programmes has three headings, i.e. 1. Fisheries Loan Fund, 2. Modernization or diversification and 3. A price support programme.

I will deal with this Canadian information separately for each of the headings:

Heading 1: Fisheries Loan Fund

It is correct that income of the Fisheries Loan Fund is derived from an export levy on most fishery products.

On the other hand, it is incorrect that income also derived from the Icelandic Treasury. Contributions from the Treasury were discontinued three years ago. These contributions - when they were made - were very limited and had little, if any, effects on the balance sheet of the Fisheries Loan Fund.

It is also incorrect to state that a part of the income of the fund is derived from the "Development Fund of Iceland". This "Development Fund" has, on the other hand, often acted as an intermediary in raising - in Iceland or abroad - loans for the Fisheries Loan Fund as well as for other investment funds in Iceland through normal commercial channels.

The Fisheries Loan Fund does not borrow any money for re-lending on other terms than the general market is offering at any given time.

Loans from the fund are either linked to index or to the rate of exchange vis-à-vis the SDR. To maintain that "some element of subsidy" may be implied in such normal commercial practice is somewhat naive guesswork and indicates a very limited knowledge about the development of exchange rates and inflation in Iceland. More correctly, as in any other business, one could talk about an element of risk when those who take a loan make their decision as to what currency they choose and what terms the market offers in each case.

Heading 2: Modernization or diversification

Several years ago the funds of the fishing industry itself allocated for loans for modifications a total sum equivalent to US\$405,000 at the present rate of exchange. The original purpose of this was to encourage modifications of the motors of fishing boats allowing them to burn heavy instead of light oil and the reason for this was the important difference in price between these two types of oil at the time. Now this difference in price is too small to make up for the cost and such modifications are, therefore, no longer carried on. Loans for these modifications were indexed but interest-free and came of course from the fishing industry itself. They ran for one-three years and varied from US\$1,500 to US\$25,000 depending on the range of modifications that had to be made in each case.

Now, the Fisheries Loan Fund makes available loans for modernization and energy-saving measures. The principal may either be linked to index or to the SDR. These are five-seven-year loans at market interest rates.

Heading 3: A price-support programme

The first sentence in the Canadian statement is correct, as far as it goes. On the other hand, these transfers may vary between species and from season to season. For example, price-support was granted temporarily for blue whiting and Norway pout while experimental fishing for these newly utilized species was carried out. Price-support for plaice has not been granted during the last two years.

It should be underlined that no price support is granted for fresh fish which is landed abroad directly from fishing boats or sent on foreign markets in containers. A very negligible quantity of frozen, salted or otherwise processed fish of species which enjoy price-support is sold to Western Europe.

The first eleven words of the second sentence in this heading are correct, i.e. "This programme is financed by levies on export of fisheries products". But it is incorrect to state, as is done in the Canadian paper, that this constitutes transfer payments to fishermen from processors. It may be said that the whole Icelandic fishing industry supports the levy but it is, nevertheless, a fact that the fishermen themselves carry the heaviest burden because export-levies are calculated into the ex-vessel price of the fish when it is landed in Iceland. It is, therefore, more natural to talk about transfer within the fishing industry. This constitutes, in real fact, the fishermen's contribution to directing fishing efforts from the highly valued but over-exploited species towards less-valued species and no government financial assistance comes into the picture. To terminate, as is done, by drawing the free-trade agreement between Iceland and the European Economic Community into this document is not only distasteful but very far-fetched indeed.

If I should summarize what I have now said it implies that the correct version of Chapter A II in the Canadian Background Note, distributed as document MDF/W/26, should read as follows:

Iceland

- (a) Quantitative restrictions: none
- (b) Government financial assistance programmes: none

Let me now turn to other country chapters:

It is gratifying to see that in their document the Canadian delegation lists some government financial assistance practices in Canada. Reading through that list I must admit that I am somewhat amazed at the reserved way in which these measures are presented. Totals are given for the first two headings only and amount to respectively Can\$3.9 and 2.7 million. The third and fourth headings refer to percentages only and the fifth talks about Improvement Programme in very vague terms. The impression we get from reading this Chapter is that certainly there are some government financial assistance practices in Canada but that they are of no major importance for the fishing sector. Those who have to compete with the heavily subsidized Canadian fish export know that this is a wrong impression. Money is flowing in from government sources, both directly, and what is more difficult to trace, indirectly from the Federal Government into the fishing provinces under various labels. A rough guess is that we may be talking in terms of hundreds of millions of dollars per year when all is counted. To make this misty picture clear and transparent is a necessity if we are to identify properly problems of trade in fish and fisheries products as is the task of this Working Party. In light of this, I am grateful to the EEC for their paper distributed yesterday as supplement to the Canadian Background Note MDF/W/26.

Another country which is creating grave and increasing problems for those who are neither willing nor able to subsidize their fish exports is Norway.

Compared to the Canadian chapter in document MDF/W/26 the chapter on Norway is much more transparent but it still needs to be put in its proper perspective. I can complement the information given at the bottom of page 2 in this document by saying that for 1985 it is intended to give the Norwegian fishing industry direct government support amounting to NOK 1.375 million. I would put this in the proper perspective if I pointed out what this means. I am informed - but I stand corrected - that this means in real terms that the Government of Norway is paying 60 per cent of the ex-vessel price of all Norwegian fish catches.

I could mention other countries with similar practices but in most cases they play a smaller rôle in the serious distortion which this causes in the field of trade in fish and fisheries products. In comparison to this problem, questions of tariff rates, tariff escalation and preferential tariffs may seem of somewhat less importance to those who are mainly affected.