
Give a Man a Fish—Five Facts on China’s Distant Water Fishing Subsidies

According to the ‘State of World Fisheries and Aquaculture 2016’ report from the United Nations Food and Agriculture Organisation (FAO), 90% of accessed global marine commercial fish stock has been over-fished or fully fished.¹ Amidst this crisis, China’s rapidly developing distant water fishing industry has exposed environmental, economic, and foreign policy problems. Subsidies for distant water fishing are not only an important driving mechanism in its development, they are also the source of several problems within the industry. Greenpeace East Asia has gathered five facts on China’s centralised and localised subsidies for distant water fishing with the hope of promoting further discussion on the issue of sustainable development for the fishing industry.

KEY STATISTICS

- Fuel subsidies for the DWF industry grew from RMB 281 million in 2006 to RMB 2.68 billion in 2011
- From 2012-2014, the number of Chinese DWF vessels grew from 1,830 to 2,460, more than ten times the size of the US fleet
- On average, 80% of China’s DWF non-operating income comes from government fuel subsidies
- Fujian’s DWF fleet capacity grew 149% from 2012-2014, but production value increased only 63%
- Shandong’s DWF fleet capacity grew 232% from 2012-2014, but production value increased only 77%

1. Fuel subsidies are rapidly increasing, while data transparency continuously declines.

Various forms of national subsidies exist for China’s distant water fishing (DWF) industry. The most significant and largest sum comes in the form of fuel subsidies. The subsidy is of major importance to the industry as fuel expenses take up over a third of DWF operational costs (see Fig. 1)². Moreover, recent additional financial subsidies and preferential policies for China’s DWF industry have promoted its rapid growth.

China’s national fuel subsidies for the DWF industry began in 2006. That year, as diesel fuel prices rose, the Ministry of Finance gave RMB 281 million in diesel fuel subsidies to the industry. In 2009, several ministries and commissions announced plans to peg subsidy levels to fuel prices. The stipulation for DWF industry fuel subsidies included two diesel price thresholds. When diesel manufacturing prices remained at RMB 3870~5070/tonne, the Ministry of Finance would shoulder 50% of costs above the 3870 RMB threshold. When diesel manufacturing prices surpassed 5070/tonne, the Ministry of Finance would shoulder 100% of the additional costs beyond the 5070 RMB threshold.³ By 2011, this single subsidy had reached RMB 2.68 billion, more than 9 times the amount paid out in 2006. The rapid increase in fuel subsidies largely stimulated the recent fervour in construction of DWF ships (see Fig. 2).

Fig.1: Operational Costs of Distant Water Fishing Industry⁴

¹ Food and Agriculture Organization of the United Nations, “State of World Fisheries and Aquaculture” and “FAO’S Programme of Work in Fisheries and Aquaculture under the FAO Strategic Framework” (COFI/2016/2), July 2016, p.14, <http://www.fao.org/3/a-mq663c.pdf>.

² According to Everbright Securities report 《央企改革成就新中水》, 37% of operational costs in the distant water fishing industry arrive from fuel expenses. This ratio fluctuates with fuel prices and could rise, <http://yanbao.stock.hexun.com/dzgg556338.shtml>.

³ 《关于成品油价格和税费改革后进一步完善种粮农民部分困难群体和公益性行业补贴机制的通知》.

⁴ Everbright Securities, 《央企改革成就新中水》.

Operational Costs of Distant Water Fishing Industry

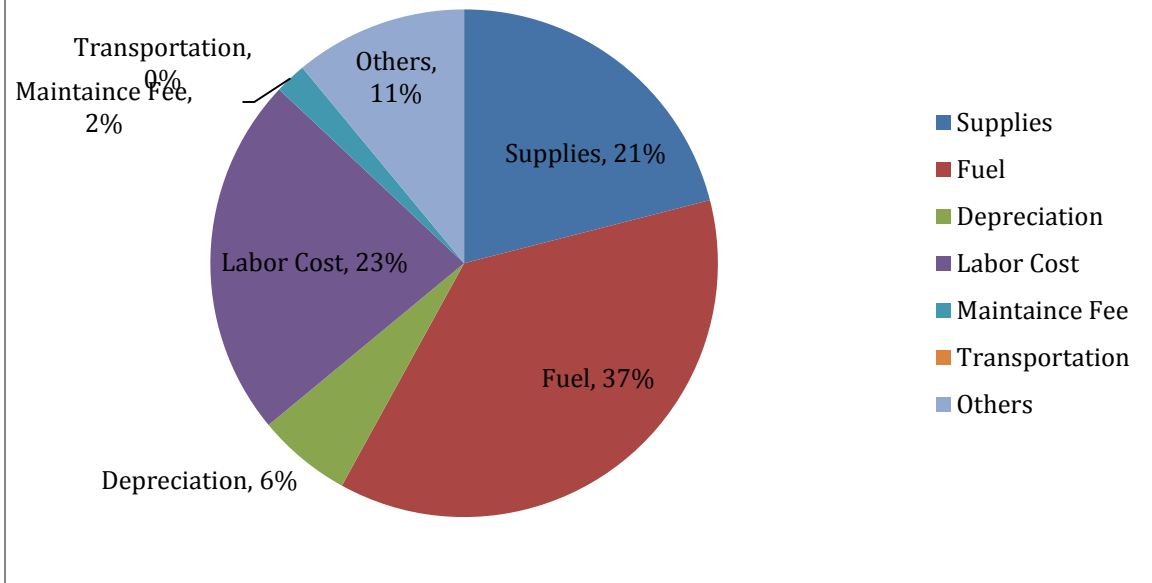
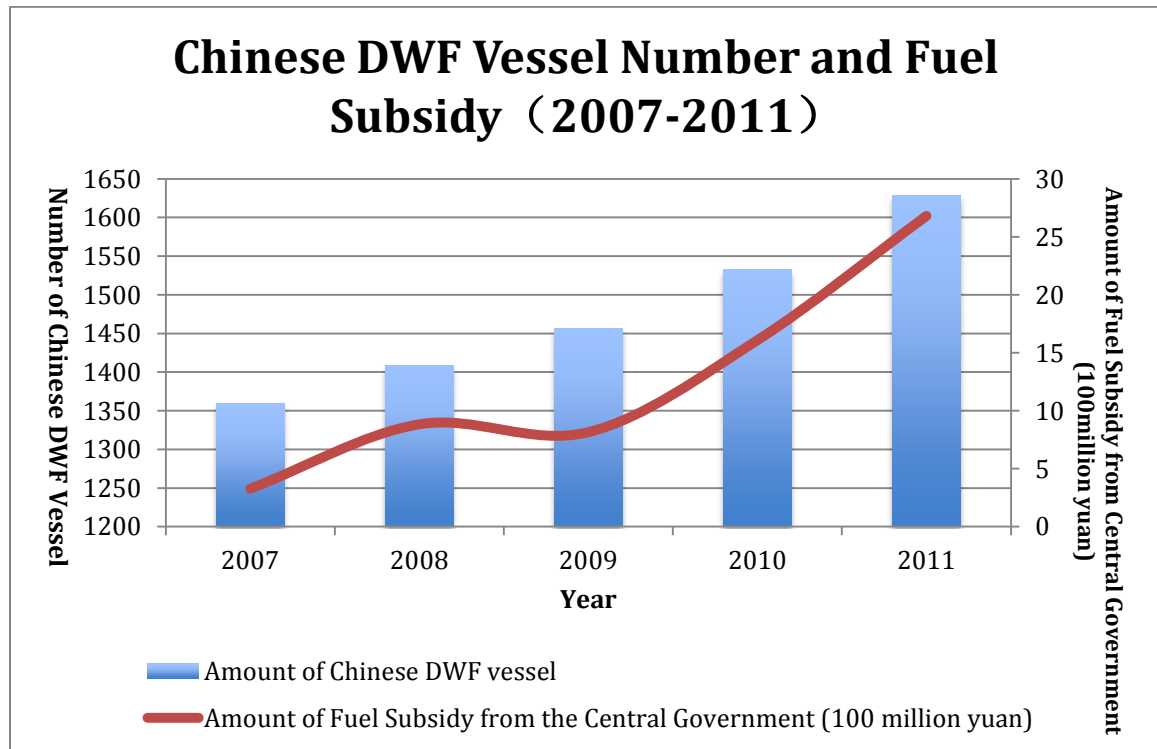


Fig. 2: China Distant Water Fishing Vessels and Subsidy Amount (2007-2011)⁵



Since 2011 official figures on fuel subsidies for the DWF industry have ceased to be released, creating difficulties for statistical comparison and a full understanding of development in the industry. A

⁵ Ministry of Agriculture, Fishing Industry Bureau, China Fishery Statistical Yearbook; Distant water fishing ship numbers exclude those operating in the eastern sea of North Korea.

similar lack of transparency exists in regards to other important subsidy programs. For example, China has yet to officially disclose the scale of its ship building subsidies.

2. Local subsidies are important drivers of explosive growth in the industry.

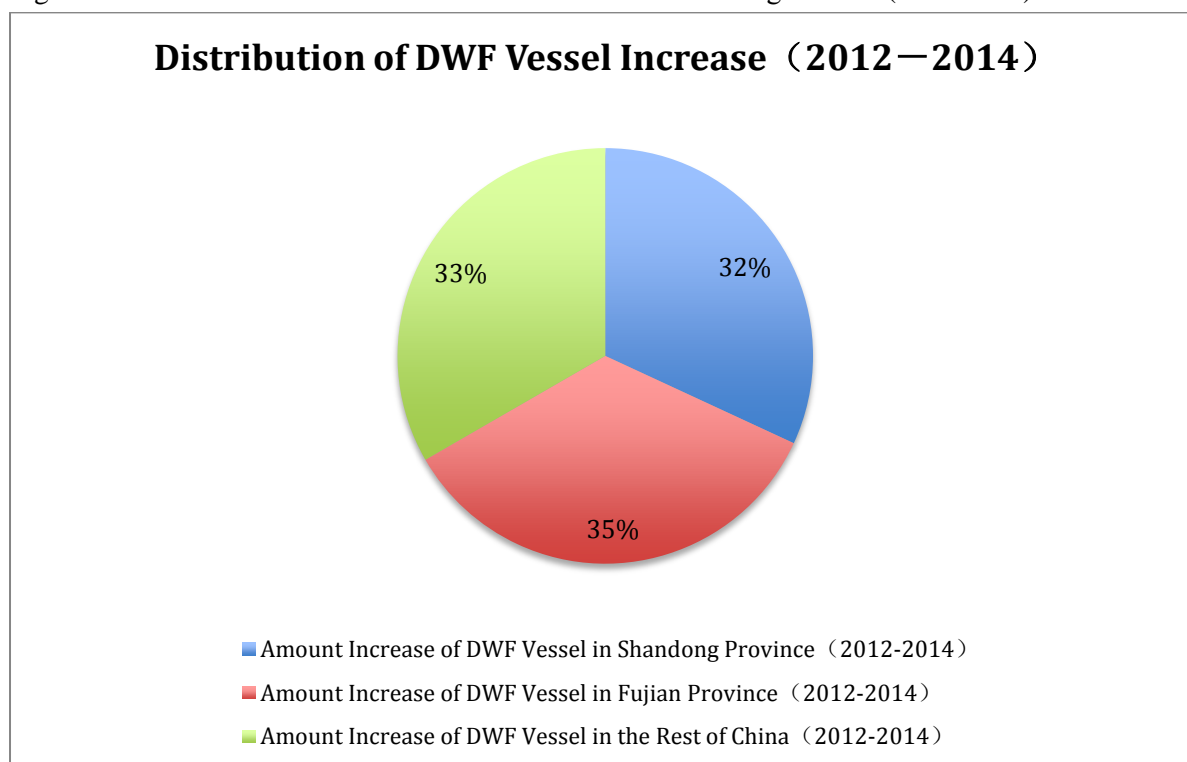
In addition to central government policy, provincial government policies have also been key contributors to the explosive development of China's DWF industry. Different from the central government's emphasis on providing subsidies for fuel, provincial subsidies tend to be oriented primarily towards infrastructure development.

In recent years the role of provincial policies is particularly evident in the aggressive growth of both the number and capacity of DWF vessels.

The period 2012 to 2014 saw unprecedented growth in China's DWF industry. In these three years, numbers of ships increased from 1830 to 2460, an increase equivalent to that of the 16 years between 1994 and 2010. In addition, the engine capacity of DWF ships has nearly doubled, reaching 2,025 megawatts in 2014. To draw a comparison, in 2015 the USA had only 225 large-scale vessels with tonnage and capacity equivalent to China's vessels for distant water fishing.

At the same time, the increase in the number of distant water fishing vessels is highly concentrated in just a handful of provinces, with Shandong and Fujian comprising 2/3 of the total increase in vessels.

Fig. 3: Distribution of Increase in China's Distant Water Fishing Vessels (2012-2014)⁶



The rapid increases in Fujian and Shandong are dependent on the support of local policy, including both provincial-level and municipal-level government support.⁷ Local support for the distant water

⁶ Ministry of Agriculture, Fishing Industry Management Bureau, 《中国远洋渔业发展报告》.

fishing industry includes construction of ships, construction of bases for the fishing industry, and subsidies for electricity (see a sample of policies in Table 1). The timing of these local subsidy policies coincides with the industry's increase in scale, verifying that local policy contributed largely to the explosive industrial growth.

Table 1: Fujian Provincial/Municipal-level Subsidy Type and Description⁸

	Soft loan for fabrication of industry ships	Fishing Ship Development and Design Subsidy	Port Base Subsidy	Home port subsidy	Electricity Subsidy	Ship Crew Allowance	Resource Expedition Subsidy
Fujian Province	<p>1. For ships of 1000 GT or above (tuna long-liner 500 GT or above), 5% of purchasing or construction cost be covered by soft loans, with a cap of RMB 6 million per ship.</p> <p>2. For upgrading small-scale ships of 24 m length or less fishing in other countries' EEZ there is a 5% expenditure allowance.</p>	R&D for every type of vessel, is given a provincial financial subsidy of RMB 1.5 million	DWF industry park land-transfer fee according to 'National Industry Land-Transfer Minimum Price Standard' of 70%; For government-approved DWF industry parks, RMB 5 million is awarded as subsidy or soft loan from the provincial budget.	For Fujian enterprises transporting fishery products back to Fujian ports, district/municipal-level finance policies provide transport fee subsidies (the highest province-level allowance is RMB 50/tonne)	Under the so-called "peak and valley" flexible electricity tariff system, all fishery company electricity usage is charged at "valley" period, i.e. lowest price.	Provincial DWF ship crew and fishing ship insurance are included in the 'mutual insurance subsidy'	Three fishing sites per year, RMB 1 million for each project.
Fuzhou City	<p>1. Construction purchase 1000 tonne or more 'purse seine' fishing net and squid jigger, 500 tonne or more tuna long-liner and light-luring purse seine. Highest soft loan is RMB 3 million/ship, soft loan rate is 1.15-6.15% of loan balance</p> <p>2. For upgrading small-scale ships 24 m long or less fishing in other countries' EEZ, 5% expenditure allowance.</p>		Total investment of \$10 million USD or more. Every DWF base may receive a one-time subsidy of RMB 1 million; Total investment \$20 USD, every DWF base may receive a one-time subsidy of RMB 2 million.	RMB 50/tonne			Deep sea fishing enterprise one-time award of RMB 200,000

⁷ 《福建省人民政府关于加快远洋渔业发展六条措施的通知》, <http://www.zhangzhou.gov.cn/cms/html/zsrzmzfmhwz/2015-12-03/121470939.html>.

⁸ Greenpeace East Asia, based on collected provincial/municipal-level policies.

Fujian and Shandong have also established substantial industry development goals for the future.

Fujian's industry plan clearly states that by 2017 the number of distant water fishing ships will increase to 700, and 900 by the year 2020, a total increase of 400 over the five year period.⁹

Shandong's twelfth five-year plan states that by 2015, the provinces 391 DWF vessels in 2014 will increase to 600. The province later adjusted targets down to a goal of 500 ships by 2020,¹⁰ while Fujian's DWF development remains in the fast lane.

3. China's DWF industry is repeating the mistakes of other industries

The attention paid to the DWF industry at every level of government is not reflected in the industry's economic performance. On the contrary, the DWF industry has repeated the missteps of traditional land-based industries, such as steel, cement and coal power – short-sightedness of local governments, a lack of analysis and evaluation of long-term risks, weak central government oversight and the negative environmental and societal impact caused by over-capacity.

On average 80% of non-operating income for enterprises in China's DWF industry is derived from government fuel subsidies.¹¹ Greenpeace's analysis of the financial performance of CNFC Overseas Fishery Co. Ltd, which is controlled by the state-owned China National Agricultural Development Group Co., Ltd., and Shanghai Kaichuang Marine International Co. Ltd., fully owned by the Shanghai Fisheries General Corp. Group, indicates that without government subsidies, these two, large-scale publically-listed businesses would be unable to turn a profit.

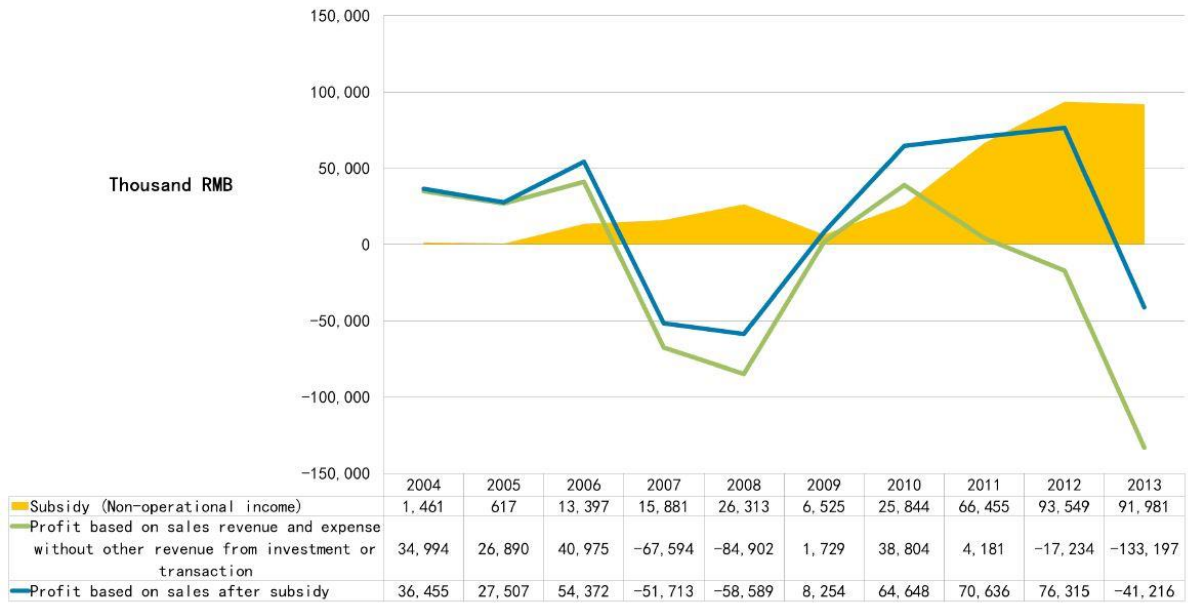
⁹ "Thirteenth Five Year Plan" Fujian Ocean Economy Greets Development Opportunity, <http://www.eastfishery.ac.cn/f4/87/c1967a193671/page.htm>

¹⁰ 《山东省远洋渔业提质增效转型升级实施方案 (2015-2020) 》, <http://www.hssd.gov.cn/pub/ghcwczz/gzdt/tzgg/201508/P020150810550167596728.doc>

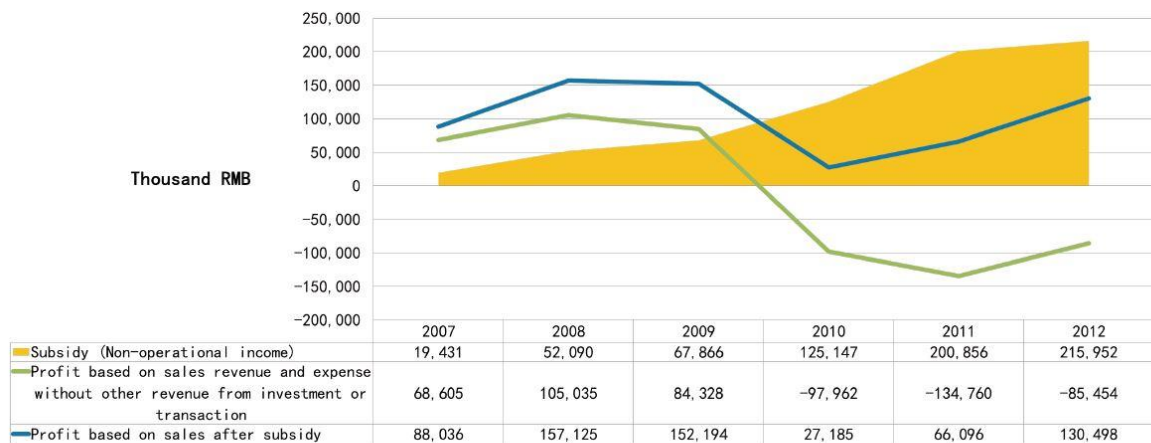
¹¹ Everbright Securities, 《央企改革成就新中水》.

Fig. 4: China's Distant Water Fishing Industry Financial Performance¹²

COFC (CNFC Overseas Fishery Co., Ltd)



Shanghai Kaichuang Marine International Co. Ltd.



At the provincial-level, one sees that subsidy increase and capacity expansion have produced almost no increase in economic benefit. Taking the aggressively paced development of Fujian and Shandong as examples, between 2012 and 2014 their fishing vessel capacities increased by 149% and 232%

¹² Greenpeace, Africa's fisheries' paradise at a crossroads, <http://www.greenpeace.org/eastasia/publications/reports/oceans/2015/Africas-fisheries-paradise-at-a-crossroads/>

respectively, while production value only increased by 63% and 77%, indicating the low economic efficiency of the public investment and a widening overcapacity problem.

In other words, China's DWF industry is over-reliant on subsidies, which, instead of strengthening the industry, are encouraging it to expand far beyond its means.

4. Distant water fishing industry subsidies caught in eye of international dispute.

Although the DWF industry contributes to less than 0.1% of the total amount of China's overseas investment¹³, the industry has become a source of trouble in China's international endeavours of diplomacy, commerce, and environmentalism.

In diplomacy, in just the first half of 2016, China's DWF industry saw a ship sunk by Argentina, and ships detained by Indonesia and South Africa, attracting attention from the global community.¹⁴ Industry expansion and the intensified competition produced by subsidies is increasing the likelihood of industry operation violations. Although several similar incidents are still awaiting final legal proceedings, the international disputes and impact of negative public opinion brought on by China's DWF industry is deserving of greater notice.

Commercially, China's fishing subsidies have become the target of challenges from other countries too.¹⁵ In April 2016, the US submitted a request to the WTO Committee on Subsidies and Countervailing Measures for China to provide further information regarding fishery industry subsidies as in accordance with stipulations put forward by the WTO. At the same time, viewed as the blueprint for future "mini-lateral" trade agreements, the Trans-Pacific Partnership Agreement (TPP) clearly requires member nations to provide information regarding fishery industry subsidies, including fuel subsidies. The TPP agreement also stipulates a requirement to control, cut back, and eventually eliminate subsidies that could lead to over-fishing. Subsidies with the potential to cause fishery populations to decrease or that provide for vessels with a documented history of illegal fishing are explicitly prohibited.

These clauses represent the leading trend in international fisheries rule making.¹⁶ Although China is not a member of the TPP process, drawing a comparison between China's policies and the requirements of the agreement still reveals the wide gap between China's practices and leading international standards.

Environmentally, the conclusion of the Paris Agreement on Climate Change has brought progress on GHG emissions reductions to the fore of endeavours from the international community. The political impact of the Paris Agreement has already spread to other traditionally politically and economically

¹³According to the Fishery Bureau of the Ministry of Agriculture's China DWF Industry Development Report, up until 2013, China's DWF industry's overseas foreign direct investment is 470 million USD; according to the 2013 China Foreign Direct Investment Statistical Communique (http://www.mof.gov.cn/mofhome/mof/zhengwuxinxi/caijingshidian/zyzfmhzw/201409/t20140911_1137908.html); China's FDI in 2013 is 660.48 billion USD.

¹⁴ Argentina coast guard sinks Chinese trawler fishing illegally <http://www.reuters.com/article/us-argentina-defense-china-idUSKCN0WH2QL> ; Another Chinese fishing boat detained in Indonesia's waters in South China Sea: Official <http://www.straitstimes.com/asia/se-asia/another-chinese-fishing-boat-detained-in-indonesias-waters-in-south-china-sea-official> ; South Africa arrests Chinese ships for illegal squid fishing <http://af.reuters.com/article/topNews/idAFKCN0YE1LD>

¹⁵ REQUEST FROM THE UNITED STATES TO CHINA PURSUANT TO ARTICLE 25.10 OF THE AGREEMENT <https://ustr.gov/sites/default/files/US-submission-Chinese-fishery-subsidy-measures.pdf>.

¹⁶ Trans Pacific Partnership, Chapter 20 Environment, Article 20.16: Marine Capture Fisheries , <https://www.mfat.govt.nz/assets/securedfiles/Trans-Pacific-Partnership/Text/20.-Environment-Chapter.pdf>.

dominated international platforms. At the G7 Summit in May 2016, a joint pledge was made encouraging all nations to eradicate inefficient subsidies for fossil fuels by 2025. The issue is also high on the agenda for the upcoming G20 Hangzhou summit, with a recently concluded G20 finance minister meeting pledging to phase out inefficient subsidies in the “medium term”¹⁷. Fuel subsidies for the DWF industry clearly belong to this category.

5. The course of distant water fishing industry subsidies is in urgent need of adjustment.

Currently, the Ministry of Agriculture has already made normative and orderly development of the distant water fishing industry an important part of fishery reform. Moreover, a recent inter-ministerial policy document¹⁸ has noted that the growth of subsidies for the DWF industry must reverse in the future, as the mechanism for subsidies has become rigid and increasingly ineffective.

Greenpeace suggests the Fishery Bureau of the Ministry of Agriculture to formulate a DWF industry subsidy policy reform plan to quickly halt the gross exploitation of resources and the environment brought about by subsidies. Instead, subsidies should be used to lead China’s DWF industry on the path of sustainability. This process should especially focus on the following aspects:

- **China should reinforce its monitoring, control and surveillance (MCS) system and penalty scheme to guarantee that DWF industry enterprises respect legal regulations.** Punitive measures should be strictly and impartially enforced on all participating enterprises. Favourable policies, financial support, and subsidies for those involved in Illegal, Unreported and Unregulated (IUU) fishing should immediately cease;
- **Draft new subsidy policies designed to positively lead and cut back excessive fishery capacity and promote environmentally friendly and ecologically sustainable development for fishing ships.** New subsidy policies should be based on the promotion of low ecological and environmental impact practices, with support prioritised for scientific study, policy research, and law enforcement. **Establish China as a nation responsible for its fishing industry.**
- **Amend the ‘Fishery Law’ and ‘Distant Water Fishery Management Provisions’ and improve related provisions;** strengthen the human capacity of the Fishery Bureau under the Ministry of Agriculture to cope with the increasing management difficulties brought about by surging industrial capacity;
- **Provincial-level governments should be aware of the risks of expansion and over-capacity.** Provinces with large DWF industries—Fujian and Shandong in particular—should re-evaluate current subsidy policies for DWF.
- **Cease plans for the construction of any new DWF fishing boats.**
- **Implement a complete and comprehensive evaluation** of 1) current DWF boat capacities and 2) the environmental, societal, and economic impact of the fishing industry.

In conclusion, subsidies for China’s DWF industry are intensifying the inefficiency of the industry and the destruction of the environment. Although the Chinese government defines the DWF industry as a ‘strategic industry’, the current model for subsidies does more harm than good. China urgently

¹⁷ G-20 Finance Ministers, Central Bankers’ Communique, <http://www.bloomberg.com/news/articles/2016-07-24/g-20-finance-ministers-central-bankers-communique-full-text>.

¹⁸ 《财政部、交通运输部、农业部、国家林业局 关于调整农村客运、出租车、远洋渔业、林业等行业油价补贴政策的通知》，<http://ghzj.forestry.gov.cn/portal/ghzj/s/1618/content-870761.html>.

needs to reform subsidy policy and avoid encouraging such inefficient and destructive growth in its strategic industries.