

Atlantic Coast production in 1962 was above that in 1954, the percentage share of total production from this region declined over those years from about 72% to 50%.

(5) The average number of gallons of menhaden oil produced per ton of fish in the Gulf region was 28.1 for 1954-62. The comparable average for the Atlantic Coast was 20.3 gallons per ton of fish.

#### CONCLUSIONS

(1) High physical productivity per unit of capital and labor in the Gulf menhaden fishery since 1954 has been a basic factor in the rapid growth of this fishery and in the currently significant role of that region in the United States production of menhaden meal and oil. High vessel efficiency due to low average age of vessels operating in the Gulf Coast waters and to a rapid rate of adoption of technological innovations is also apparently a causal element.

(2) Four economic criteria for evaluating fishery performance were postulated. The analysis indicates that both the Atlantic and the Gulf fisheries were probably approximating these economic criteria in the period studied. A more definitive analysis, especially with regard to opportunity costs, however, must be undertaken when cost data from the two fisheries become available.

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## **Fishing Vessel Construction Differential Subsidies**

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#### **Abstract**

This paper includes a history of fishing vessel construction differential subsidies paid in the United States as well as examples of some foreign subsidies. The

impact of subsidies on the fishery is discussed. The legislative background of the original Act is described along with the status of proposed amendments. THE THEME OF THIS SESSION is "The Challenge to U.S. Fisheries." This paper is "Fishing Vessel Construction Differential Subsidies." Does this imply that construction subsidies are the answer to the challenge? They may be a partial solution to some of the difficulties of the industry, but no one should feel that construction or any other type of subsidies are the total answer.

Generally speaking, there are two types of subsidy, direct and indirect. Direct subsidies constitute direct payments to assist in the construction of facilities or to operate facilities. They may also constitute direct payments to assist in the payment of interest or insurance. Indirect subsidies include such things as tariffs and quotas, favorable treatment in the use of foreign exchange, low interest rates, and similar aids. Practically all of the leading fishing nations of the world use one or more of these types of subsidy. We cannot hope to cover all of the various subsidies used throughout the world so I will mention only a few of them as examples.

In the United Kingdom grants of 25% are available for the construction of new vessels or for the conversion of coal engines to oil engines. In Malta grants up to 50% of the cost of acquisition or improvement of a fishing vessel or equipment may be obtained. In France subsidies equal to the difference in cost of construction of a vessel in France and in certain foreign countries are paid. In Canada subsidies as high as 50% of the cost of construction have been paid on certain vessels constructed in that country. Payments based on a certain rate per pound of fish landed have also been paid in the United Kingdom. Belgium, Canada, France, West Germany, and Ireland also make grants to pay part of the interest owed by fishermen on loans made in connection with the acquisition or modernization of fishing vessels. Under certain conditions the Province of Quebec makes long term, non-interest bearing loans for the construction of new fishing vessels.

Among indirect subsidies the most obvious of course is simple tariff protection. This is used to a greater or lesser extent by almost every country. Many countries also have a requirement for licenses for the import of certain commodities which may restrict the amount which can be brought in. The use of absolute quotas or prohibition against imports of certain commodities may also be used to protect a country's fisheries. In some countries, such as Norway, price supports are available for certain fishery commodities. The exemption from import duties of products used by fishermen is allowed in many countries. Some countries also allow certain tax advantages for fishermen which, in effect, constitute an indirect subsidy.

In the United States fishermen have traditionally been opposed to the payment of subsidies because of the degree of control which necessarily accompanies these payments. The typical rugged individualistic fisherman preferred to struggle along as best he could. However, since shortly after World War II, many fishermen have found the competition from imports and other domestically produced protein foods to be more than they could cope with. In 1946 imports accounted for only 16% of the total fish supplies in the United States. At the present time they represent 50% of the supply. The cost of construction of new vessels skyrocketed. The fisherman was unable to obtain additional tariff protection because the United States was committed to a policy of world trade expansion to be helped by tariff reductions.

Under our Customs documentation laws, vessels documented as fishing

vessels must generally have been built here. This basic concept was included in an act passed during the second administration of George Washington in 1792. During the same session of Congress, a bill was passed to provide a bounty, or operating subsidy based on the size of fishing vessels. Although the payment of the bounty soon ceased, the restriction on the documentation of foreign-built vessels for fishing has continued. Consequently, the American fisherman has been forced to use old, obsolete vessels or to pay the increased cost of construction in this country. The cost of constructing a new steel fishing vessel in the United States is about double the cost of construction in some foreign yards. The differential on wood vessels is not as great but is still very substantial. In effect this additional cost of construction amounts to a subsidy to the shipyard paid by the fishing vessel owner. The amortization cost of the vessel is a substantial portion of operational costs. Many of our vessels are fishing on the same grounds with foreign vessels and are competing for the same domestic market with their catches. The foreign vessel has a very obvious cost advantage with the lower construction costs and in many cases the payment of a government subsidy in addition to the lowered construction costs.

These conditions were particularly aggravated in certain segments of our fishing industry from 1958 to 1960. In an effort to assist the industry in overcoming this advantage, a number of bills were introduced in the 86th Congress in 1959. The Act of June 12, 1960, known as Public Law 86-516, represented a compromise allowing payment of a fishing vessel construction differential subsidy under very restrictive provisions. In brief, this Act provided for a subsidy equal to the difference in the cost of construction in a domestic yard and a foreign yard with a limit of 33 $\frac{1}{3}$ % that could be paid. There were a number of provisions in the Act such as the requirement that the plans be approved by the Maritime Administrator and that the vessel be built under his supervision in the yard submitting the lowest acceptable competitive bid. It also required that the crew be citizens or resident aliens and that all catches be landed in a port of the United States. However, the major limitation was the requirement that the vessel be constructed to operate in a fishery which had received a finding of injury or threat of injury by reason of increased imports. If the fishery was eligible for such a finding by the Tariff Commission under the escape clause provisions, the recommendations of the Tariff Commission for relief had to be rejected by the President because of the national interest. If the product of the fishery were on the free list or had not received a tariff concession, the finding could be made by the Secretary of the Interior. Only one fishery has received such a finding from the Tariff Commission. This was the New England groundfish fishery and consequently this fishery was the only one eligible to receive a construction differential subsidy under P.L. 86-516.

This fishery has been in a depressed condition longer than almost any other fishery in the country. As a result there has been little incentive for the investment of new capital in this fishery. Consequently only 14 applications have been filed for the subsidy during the three years of its existence. One of these was withdrawn and there is a possibility that one or two others may be withdrawn. Most operators were of the opinion that, inasmuch as the differential in cost was approximately 50%, they could not afford to build a vessel with only a 33 $\frac{1}{3}$ % subsidy. Others felt that they could not afford to put their money into this fishery because of the increasing competition from imports. Persons desiring to invest money in fisheries generally preferred to

invest in a fishery which had a more profitable outlook. However, these more profitable fisheries were not eligible for the subsidy.

Only six vessels have been completed to date under the subsidy legislation. However, even this small evidence of governmental interest has provided a more optimistic viewpoint for some operators in that area. The new vessels are more efficient and have been able to get good captains and crews. Their higher earnings, combined with the more reasonable amortization schedules made possible by the subsidy, have made for a profitable operation.

The overall condition of the industry has not changed a great deal since the bill was passed in 1960. Some segments of the industry have improved their status while others have found themselves in a less profitable position. The one thing that can be said for practically all of our fisheries is that fleets are older and more obsolete.

During the First session of the 88th Congress eight bills have been introduced which would extend the life of the present program and broaden its scope to make all fisheries eligible. While there is great similarity among the bills, only four are identical. The eight bills and their authors are: S. 1006, Senators Magnuson, Bartlett, Engle, Kennedy, and Saltonstall; H.R. 1026, Rep. Bates of Massachusetts; H.R. 1604, Rep. Glenn of New Jersey; H.R. 2172, Rep. Tollefson of Washington; H.R. 2643, Rep. Tollefson of Washington; H.R. 4203, Rep. Tupper of Maine; H.R. 4429, Rep. Burke of Massachusetts; H.R. 6069, Rep. O'Neill of Massachusetts. H.R. 1026, 1604, 4429, and 6069 are identical.

All of these bills are similar in that they would eliminate sections 4 and 9 of P.L. 86-516 which restricted eligibility by requiring a showing of injury from imports and providing for repayment of the subsidy if the vessel is used in a fishery other than that for which it was constructed. Other features of similarity are an extension of the program to either 1972 or 1973; an increase in the annual appropriation authorization to \$12,500,000; and an increase in the subsidy from 33½% to either 50% or 55%. In some cases the bills make a distinction between wood and steel vessels with the limit for wood vessels being placed at 35% and that for steel vessels at either 50% or 55%. In one case the bill provides for a possible retroactive application of the law by making it apply to any vessel for which the keel was laid after the date of enactment of the bill or June 30, 1963, whichever date first occurs.

Of the eight bills, the Senate bill S. 1006, has made the greatest progress. After hearings on the Senate side the bill was passed on October 2, 1963, and referred to the House where it now rests with the Committee on Merchant Marine and Fisheries. In its present form the bill provides an extension of the program to June 30, 1968; an annual appropriation authorization of \$10,000,000; and an increase in the maximum subsidy payable under the Act from 33½% to 55%. The Senate bill carries an additional restriction requiring that the subsidized vessel be of modern design capable of fishing in expanded areas or with new types of gear.

The Subcommittee on Fisheries and Wildlife Conservation of the House Committee on Merchant Marine and Fisheries heard testimony on H.R. 2172 and H.R. 2643 on August 6 and 7, 1963. At the present time that Subcommittee has not reported out either bill. However, now that the Senate-passed bill is before that House Committee we can expect that some version of this proposal will be reported to the full Committee in the near future. We believe it is realistic to forecast that the bill reported by that Subcommittee, and

ultimately by the full Committee, will be either the Senate bill or a House bill containing the basic features of the Senate bill.

The fact that Congress will apparently remain in session until late in the year could result in final favorable action being completed on the proposal this year. As the next session of Congress will be the Second session of the 88th Congress, legislation not acted upon at this session will carry forward to next year without the necessity of being reintroduced.

If the Senate bill is passed by the House and signed by the President, the life of the subsidy will be extended to June 30, 1968. It will provide for a subsidy equal to the difference between the cost of construction in a domestic and foreign shipyard. No fishery will be excluded, but the Secretary will determine the action on each application on its merit. The following findings will have to be made in each case. The vessel will be of modern design capable of fishing in expanded areas or with new types of gear. It must be suitable for use in the fishery in which the vessel will operate and suitable for use by the United States for national defense or military purposes in time of war or national emergency. The applicant must possess the ability, experience, resources, and other qualifications necessary to enable him to operate and maintain the proposed new vessel. The construction of the vessel will aid in the development of the United States fisheries under conditions that the Secretary considers to be in the public interest. The vessel must deliver its full catch to a port of the United States and employ only United States citizens or legally-domiciled aliens in its crew. It must be documented under laws of the United States and meet such other conditions as the Secretary may consider to be in the public interest.

If the bill does not pass, Public Law 86-516 will automatically expire. No applications have been accepted since June 12, 1963. All accepted prior to that date will have been processed by June 30, 1964. No appropriation will be requested for fiscal year 1965, so any application not processed by that date will have to be declined on the grounds that no funds are available.

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