



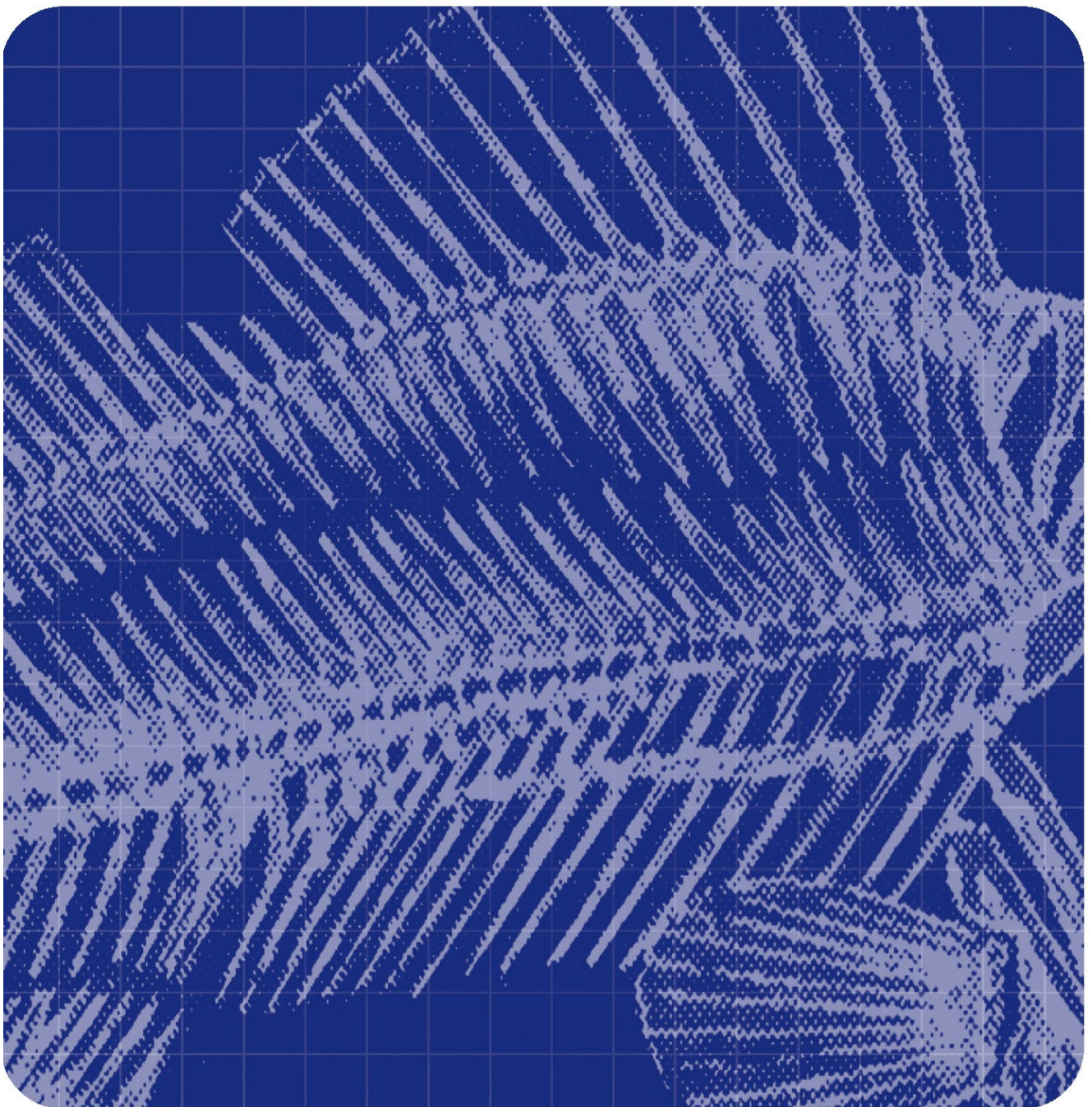
Fiskeriforskning

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Subsidies to the Norwegian Fishing Industry

An Update

John R. Isaksen





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REPORT

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<i>Summary:</i> <p>This Report is an update of earlier Report No. 7/1998: "Governmental Transfers to the Norwegian Fishing Industry: 1977-1996", which was the Norwegian contribution to the OECD's Fishery Committee, answering their Questionnaire AGR/FI (97) 11. In this publication, the emphasis is on the later years, 1995-99, and the form is not so strict.</p> <p>The Report first examines the industry's income potential during the latter decades, and is narrowed to concern the fish-harvesting sector only. Then the subsidies are presented, including the production tax on fish, and expenditures for general services to the industry. The last section addresses various capacity factors for the fishing fleet.</p>			

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1 INTRODUCTION

The purpose of this Report, in accordance with the former (Flaaten & Isaksen, 1998), is to investigate and present the main types of direct and indirect governmental transfers to the Norwegian fishing industry. The time horizon chosen for this analysis is the years 1977-1999, but in the text, the development during the latter years of the period, i.e. 1995 to 1999, is emphasised.

Two main types of arrangements of transfers to the fishing industry have existed during the period. The principal one was the General Agreement that was introduced in 1964 and which has been annually negotiated between the Government and the Fishermen's Association. The second was arrangements sorted under the National Fishery Bank (NFB), which granted low interest loans and other support measures to purchasers of new and used vessels, for rebuilding and re-equipping of vessels, etc. Since January 1997, the NFB was effectively shut down, and all its tasks and obligations were taken over and pursued by the Norwegian Industrial and Regional Development Fund (SND).

In addition, the industry has benefited from tax exemptions on mineral oil during part of the period investigated, and reduced output VAT. To a certain extent, general services paid by the local, regional or central services can also be regarded as a transfer to the industry, and are therefore addressed here.

The Report first presents figures over the fishery production value. In the next section, the different support measures under the General Agreement and NFB/SND are treated, together with special arrangements concerning general services to the industry, tax exemptions and levies on fish products. Finally, capacity measures are reported in the last section.

The Report heavily relies upon data supplied by the Division for Primary Industry, Energy and National Accounts Statistics at Statistics Norway, the Directorate of Fisheries, the Directorate of Customs and Excise, the Ministry of Fisheries, the Oslo and Bergen Departments of the Norwegian Industrial and Regional Development Fund (SND), the National Insurance Administration, the Budget Commission of Fishery, "Garantikassen for fiskere", "Norges Råfisklag" and others. This Report could not have been done without their kind contribution. Help from good colleagues, as well as the professional and thorough proof-reading by Linda "The Oversetter" Bennett, is also appreciated to a large extent.

2 FISHERY PRODUCTION VALUE

2.1 Value of Landings

Since 1977, the total sales value of the Norwegian fish-harvesting sector has more than tripled, from a total of NOK 3,100 million to a total of NOK 9,950 million in 1999, with a NOK 10,500 million peak in 1998. In real terms, however, the 1999 first-hand value is just about the same as in 1977, measured in 1999 NOK. The tendency has been towards one of decreasing value throughout the 1980's, while the 1990's, however, have shown a positive trend, except for 1999. Note that there was a severe crisis in the cod fisheries during 1989-1991.

Included in the total sales value in Figure 1 are registered ex-vessel values of fish, crustaceans, seaweed, etc., and income from sealing and whaling¹. This includes price subsidies, whenever paid, together with the product fee², but not fees to the sales organisations.

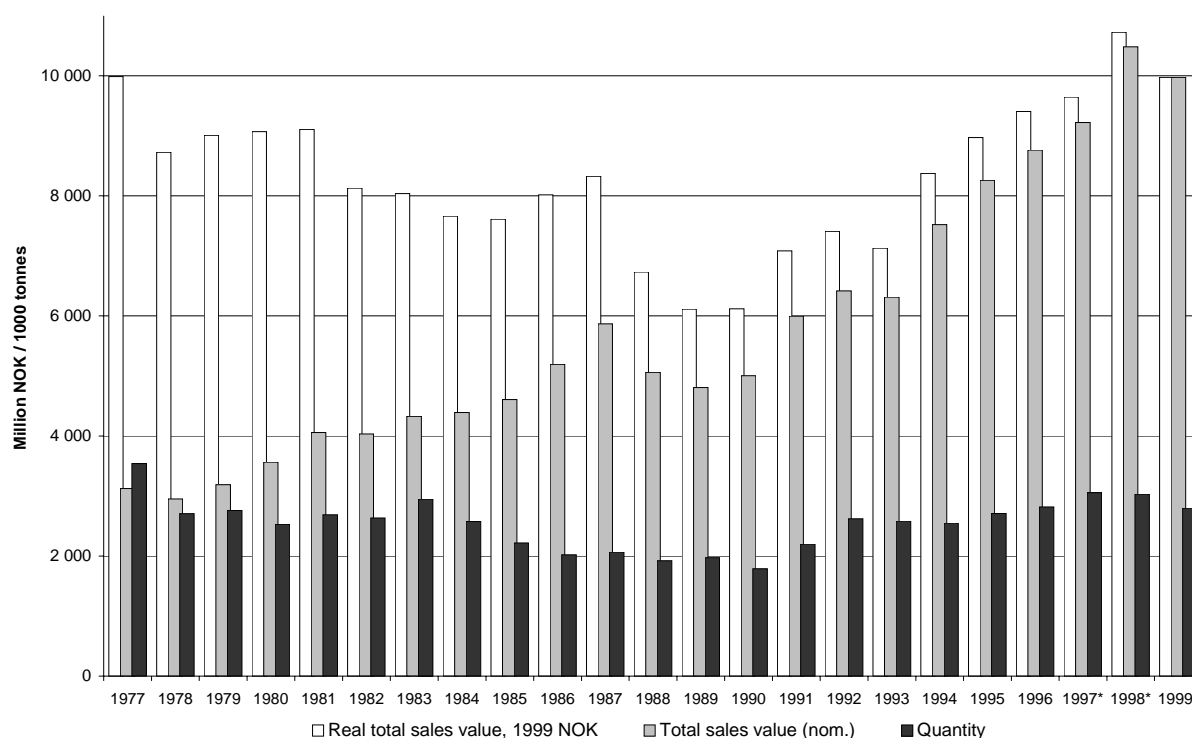


Figure 1 Total quantity (live weight) and sales value of the Norwegian fish-harvesting sector, 1977-1999, nominal and real terms (1999 NOK). Sources: Fishery Statistics and Statistical Yearbook, Statistics Norway. Years labelled "*" show preliminary figures from the Directorate of Fisheries

Although total landings in 1998 fell slightly from 1997, a severe price increase contributed to a 14 percent rise in the total sales value. This tendency continued in 1999, where the total sales value only fell by 5 percent despite an 8 percent reduction in total landings.

¹ Income from sealing and whaling constitutes only about 0.5 percent of the total sales value during the period. For several years, the catch from sealing was not sold (1989-1996), and commercial whaling was prohibited (1988-1992).

² The product fee is a duty on first-hand sale of fish, thoroughly described under section 3.4.2.

2.2 Export Value and Value of Domestic Consumption

The Norwegian fishing and aquaculture industry is the second most important export industry after oil and gas production, and the domestic market for fish is claimed to be one of our most important single markets. However, using these two key indicators as a measure of the value added stemming from the industry is not entirely unproblematic.

The export value is associated with the landings from the fishing fleet. Thus, the export value from aquaculture products is not included. The export value from the harvesting sector is dubious, primarily because of the foreign landings that enter the fish-processing sector as an increasingly more important input factor in later years. From a figure of approximately NOK 10 million in 1985-1988, the value of the catch landed in Norway from foreign vessels was at its highest in 1999, with about NOK 2,700 million³. In addition, a major part of the caught pelagic species go to fishmeal and fish oil producers, which are major suppliers of feeding materials to the aquaculture industry. In 1998, almost 50 percent of the total catch, or 72 percent of the catch of pelagic species, ended up as fishmeal, fish oil or feeding materials.

No accurate data exist over the domestic consumption of fish and fish products, only estimates. For this purpose, estimates from Statistics Norway's National Accounts are used, resulting from the survey of consumer expenditure and figures over the production of fish and fish products. Note, however, that consumption of fish from the aquaculture sector is included in this, and is expected to have a steadily increasing share. Figure 2 below gives an indication of the total overall income from harvested fish.

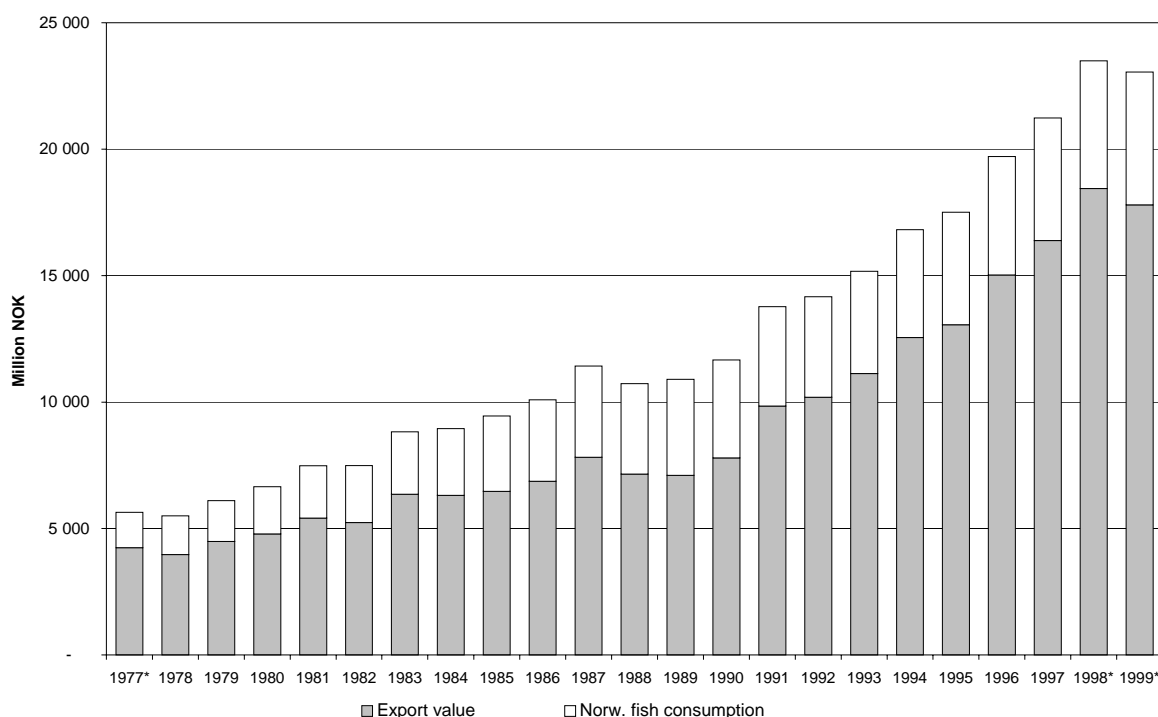


Figure 2 Export value from harvested fish and value of domestic consumption of fish and fish products, nominal terms, 1977-1999. Source: Norwegian Seafood Export Council and National Accounts, Statistics Norway. Years labelled "*" indicate own estimations over domestic consumption

³ Prior to 1993, there was a general prohibition on foreign vessels again bringing their catches to Norwegian harbours, though the Ministry of Fishery gave exemptions upon application.

The export value of harvested fish in 1999 was more than four times the 1977 value, with NOK 17,800 million, while the value of domestic consumption of fish increased by 370 percent during the period, to NOK 5,300 million in 1999. In real terms, the export value did not reach the 1977 level until 1994, but has steadily increased ever since, except for the decline in 1999. The real value of inland fish consumption has been relatively stable, varying between NOK 4,400 and 5,200 million. In real terms, these two components together showed a negative trend towards 1990, from NOK 18,000 to 13,800 million, after which it increased to NOK 24,000 million in 1998, followed by a minor setback in 1999.

3 GOVERNMENTAL FINANCIAL TRANSFERS

This section treats the various financial transfers to the fishing industry, direct as well as indirect. First, the General Agreement is considered, followed by the schemes under the National Fishery Bank/SND. Thereafter, other forms for support such as general services, negative subsidies and indirect support measures, are dealt with.

3.1 The General Agreement

Since the early 1960's, a General Agreement ("Hovedavtalen") has existed between the Norwegian Government and the Fishermen's Association (FA), regarding co-operation and support issues. The FA was given the right to request negotiations concerning support to the industry whenever they expected the harvesting sector's profitability to be low. In practice, annual support agreements have existed since the General Agreement was first signed in 1964. Whenever the Government and the FA reached an agreement on financial support, the Storting (the Norwegian Parliament) had to approve it based on a proposition to the Storting, discussing and stating the agreement. Every year, sometimes every second year, the Government would publish a report to the Storting on the use and implications of the financial support. However, this type of publication came to an end in 1996, and in subsequent years the grants and uses are reported in Proposition no. 1 to the Storting on the State Budget, but in a less detailed way.

Although this Report is concerned with the fishing fleet, the FA negotiates with the Government on behalf of the total fishing industry. Fish product prices are more or less given in the world market, and the fishermen's raw fish sales organisations can, through legislatively-granted rights, fix minimum prices for the first-hand sale of fish. Whenever the difference between the world market price and the first-hand price of fish was too low to cover the costs of the processing industry and the distribution sector, the Government would be requested to pay a price subsidy. Although the price subsidy was formally paid to the fish-harvesting sector, it is obvious that it benefited the total industry. This is also indirectly the case for the cost-reducing and social financial transfers paid to the Norwegian fishing industry. Without such transfers, the private cost of harvesting would have been higher, implying higher first-hand prices for raw fish fixed by the sales organisations to cover the fishermen's costs. The cost of raw fish amounted to as much as 60-70 percent of the processing industry's total costs of producing frozen fish products. The calculations and the recapitulation of the General Agreement in this Report have shown that the fishing industry can be viewed as having benefited directly from about 96 percent of the total amount (real value) spent under this, while the remainder was dedicated to other parts of the fisheries industry.

Over the years, the composition of measures under the General Agreement has altered; today, there is a parallel chapter on the State Budget under the Ministry of Fisheries entitled "Sundry fishery purposes". Among other things, this includes support for skills upgrading and training, previously under the General Agreement (until 1994), and is treated thereunder in the text. Note that only support to the fishing industry is discussed here, and figures may thus differ from those reported in the General Agreement in various public documents (reports and propositions to the Storting, etc.). In addition, the total support under the General Agreement fell drastically in the beginning of the 1990's, as price support was considered to be a competition-distorting measure according to the EFTA and EEA agreements, and therefore was to be phased out. Figure 3 shows the total expenditure to the fishing fleet under the

General Agreement in the years 1977-1999, nominal terms, and shares on the main components: Structural measures, income-earning measures, social schemes and other measures.

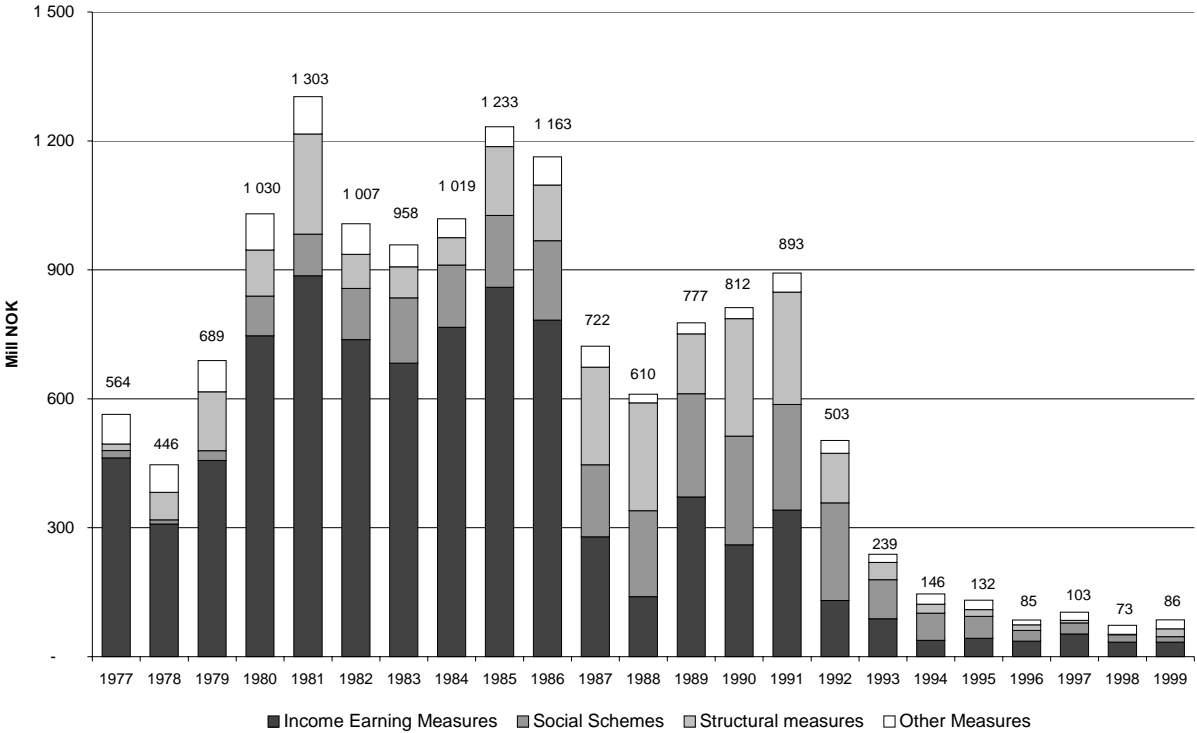


Figure 3 Total transfers to the fishing industry under the General Agreement (nominal terms) during the period 1977-99, and shares to main items

Figure 3 shows that the support under the General Agreement was at its peak in the early- and mid-eighties, and has fallen substantially after 1991. The last five years, average total transfers to the fleet have been less than ten percent of the mean for the entire period (in real terms). The total support to the fishing industry over the last five years, stemming from the General Agreement, has amounted to NOK 500 million, while for the 23 years in question, the real 1999 value has been NOK 26,400 million.

3.1.1 Structural and Efficiency Measures

The major portion of the subsidies for industry structural change is comprised of decommissioning grants to reduce capacity. Over the years, however, a large number of schemes have been accomplished, as is evidenced from Table 1.

Table 1 Different structural and efficiency measures, 1977-1999. Relative importance based on real value expenditure

Structural and efficiency support measures	Relative share
- Support to rearrange the fishing industry and structural improvements (decommissioning)	49 %
- Support to improve efficiency	32 %
- Miscellaneous financial support to the fleet (liquidity loans and support, guarantees, debt reorganising and restoration refinancing, interest support, etc.)	15 %
- Market support	2 %
- Support for skills upgrading and training measures	1 %
- Investments and support to improve work environment	1 %
Structural measures' share of total expenditure to the fishing fleet under the General Agreement	15 %

These types of support have amounted to 15 percent of the total support to the fleet under the General Agreement during the period. In later years, however, these expenditures have taken a smaller portion of the support package, mainly due to a time lag between grants and disbursement. For instance, in 1998 and 1999, a total of NOK 43 million was granted for decommissioning purposes. However, by the end of 1999, only NOK 14 million of this funding had been paid to the owners of fishing boats who took their vessels out of the fisheries. Support for efficiency improvement is made up of test fisheries and guidance, among other things, and other minor support schemes, such as upgrading of the working environment and joint venture companies for the coastal fleet, have been accomplished as well. Figure 4 illustrates the total transfers to structural and efficiency measures in the period, in nominal and real terms.

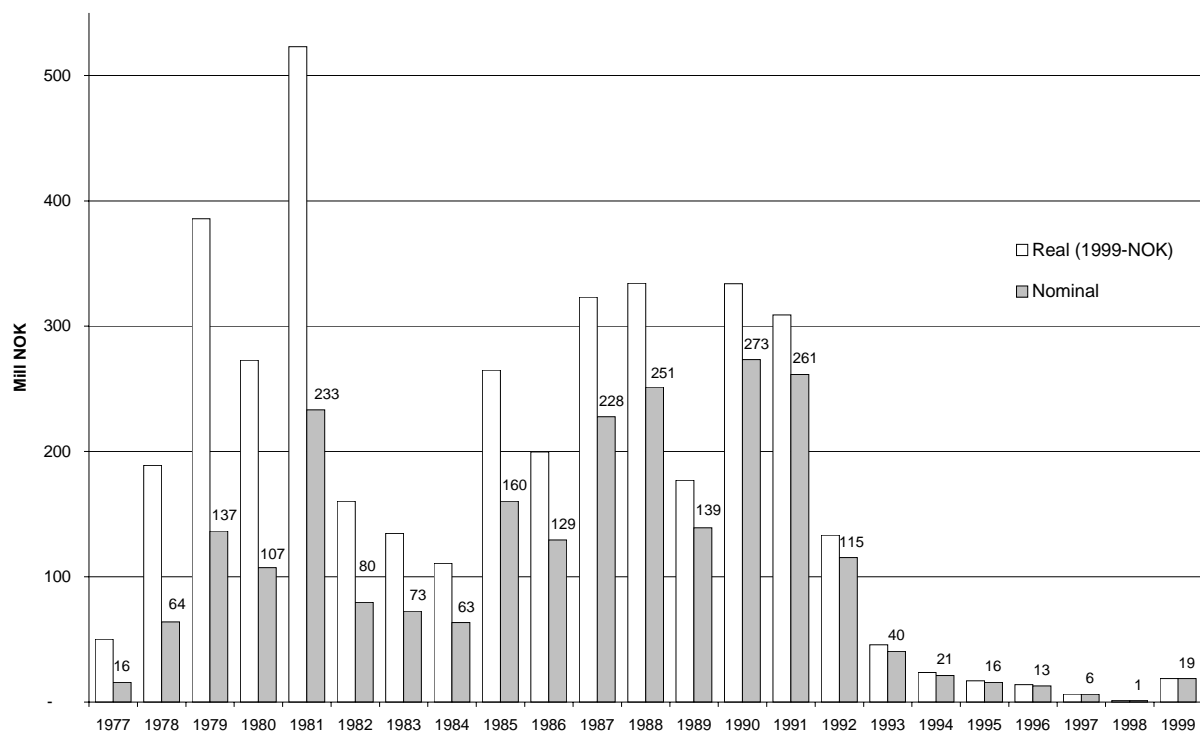


Figure 4 Total transfers to structural and efficiency measures, 1977-1999, nominal and real terms

As seen from Figure 4, the highest nominal amounts for this purpose came in the early nineties during the cod crises, where the liquidity situation in the fleet was poor. In real terms, the 1981 support is the highest, where decommissioning schemes for purse seiners, trawlers and sealing vessels made a substantial contribution. In total, structural and efficiency measures amount to NOK 2,450 million during the period, or NOK 4,000 million in real terms. Last five years, total expenditure for this purpose amounts only to NOK 60 million, or about 10 percent of the support to the fishing industry over the General Agreement in the period.

3.1.2 Income-Earning Measures

As stated in Section 3.1, price support was one of the heaviest support issues during the first 15 years in question. In fact, this item alone received 45 percent of the total support during all 23 years, although it was effectively ruled out in 1993. However, other income-earning measures have been employed during the period, as appears from Table 1.

Table 2 Different income-earning measures, 1977-1999. Relative importance based on real value expenditure

	Relative share
Structural and efficiency support measures	
Price support	72 %
Support to operational costs	12 %
Price regulation fund for herring (including interest support)	7 %
Insurance subsidies	5 %
Transportation support	2 %
Distinct price support for special fisheries*	1 %
Fund for regulation of economic cycles in the cod fisheries	1 %
Other (special income support, price support distant waters, compensation excise duty on petrol and long-term storage/freezing support)	1 %
Income earning measures' share of total expenditure to the fishing fleet under the General Agreement	63 %

* I.e. crab, coastal prawns, coastal sprat, coastal mackerel and fjord herring.

Price support is the largest component within this group of schemes, followed by operational cost support, a scheme existing from 1980 to 1988. Today, only transportation support and distinct price support for special fisheries exist, and the presence of the latter is reasoned through regional targets, to maintain the fishing industry in areas with low-income fisheries. As the regular price support was abandoned, the support for these purposes fell drastically, as shown by Figure 5.

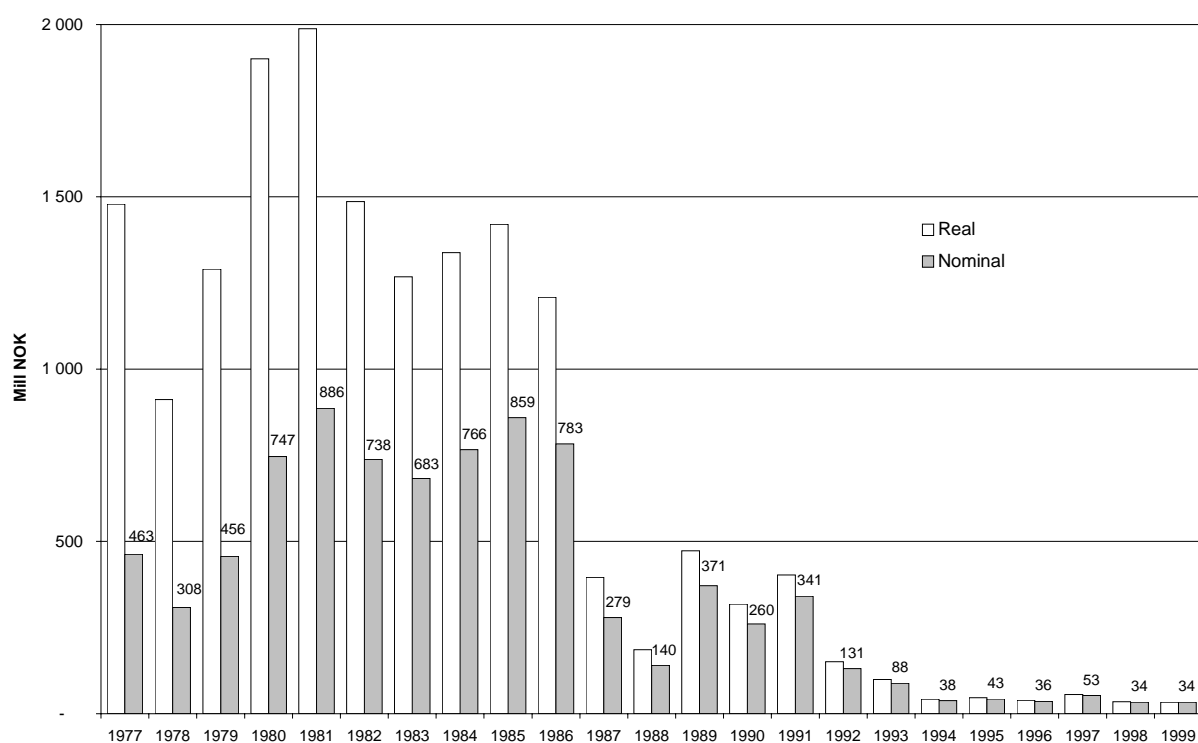


Figure 5 Support for income-earning measures, 1977-1999, nominal and real terms (1999 NOK)

This kind of support was at its highest in the first half of the 1980's, and in 1984 and 1985 the price support for cod amounted to 15 percent of the ex-vessel price (per kilogram) within the district of the largest sales organisation. In 1999, the total support for income-earning measures was only ten percent of the amount spent in 1991. Over the years, more than NOK 8,500 (in real terms NOK 16,600 million), or 63 percent of the total expenditure under the General Agreement, has accrued to these measures. During the last five-year period, the corresponding nominal amount and proportion was NOK 200 million and 41 percent, respectively, of which NOK 184 million, or 92 percent, was transportation support. That is, support for transportation of fish from areas with excess supply to areas with excess demand.

3.1.3 Social Schemes

In recent years, income-based payments have been among the major expenditures under the General Agreement. Income guarantee compensation, which assures a minimum income for fishermen during periods when fisheries fail, either wholly or in part, is the only support item that has existed during the entire period in question, and is currently the only social scheme under the General Agreement. In earlier years, there existed vacation support and unemployment insurance for fishermen, and all arrangements were governed and administrated by the Fishermen's Guarantee Fund, "Garantikassen for fiskere". The measures have been partially financed by the product fee as accounted for in Section 3.4.2, and their shares of total support to social schemes during the period have been 65, 25 and 10 percent for income guarantee compensation, vacation support and unemployment insurance, respectively. Transfers for these purposes have constituted 15 percent of the total expenditures to the fishing industry during the period (real terms). Figure 6 shows the total expenditures for social schemes during the period, in nominal and real terms.

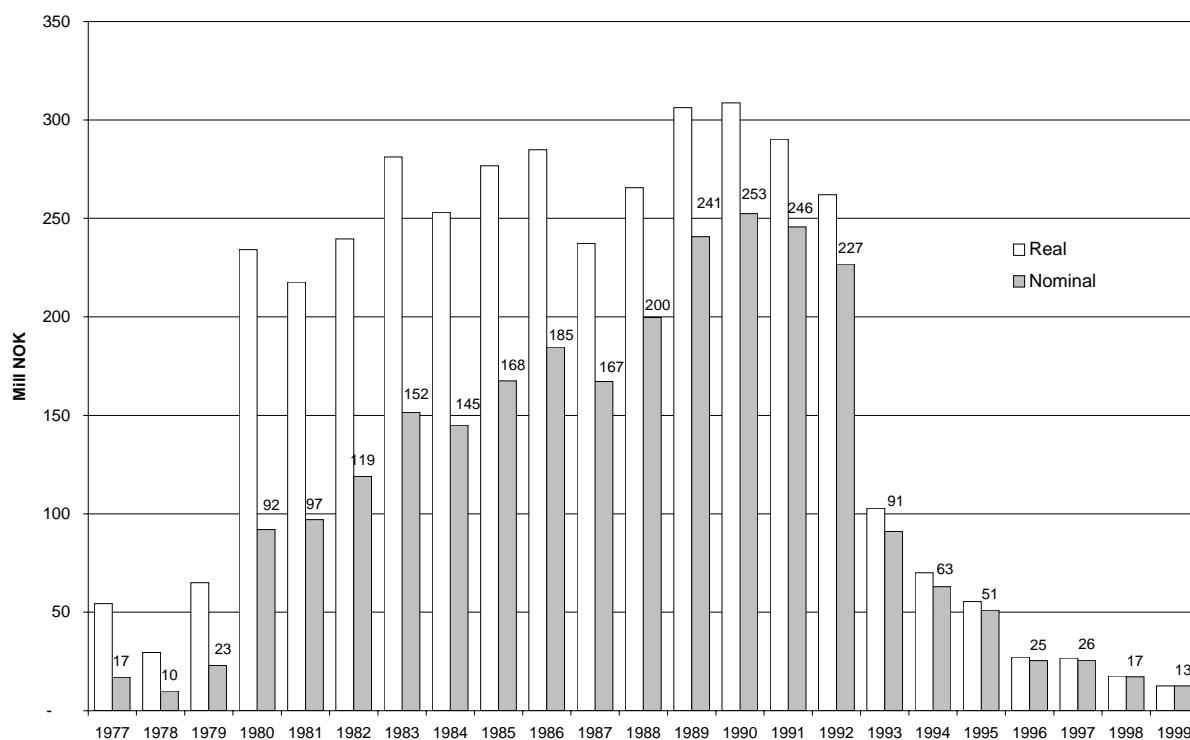


Figure 6 Total expenditure for social schemes, 1977-1999, nominal and real terms (1999 NOK)

Again, we find the highest figures during the cod crises, but these are partly a result of transfers concerning the co-ordination of the *income guarantee compensation* and *unemployment insurance*. The total nominal sum of transfers to social schemes has been NOK 2,600 million, while in real terms the support has been NOK 3,900 million. Though, the last five years' expenditures for these schemes have constituted approximately 30 percent, as opposed to only 15 percent for the entire period, despite the marked fall exhibited by Figure 6 above. The reduced support after the early 1990's was probably due to improved profitability of several Norwegian fisheries, as well as the cessation of vacation support in 1994.

However, one should be aware of the fact that most of the social schemes negotiated under the General Agreement over the years are not pure subsidies per se, but have the nature of welfare goods that to other Norwegian industries are provided through the Norwegian Social Insurance Scheme.

3.1.4 Other Measures

A minor part of the General Agreement has been designated for so-called "Other measures", which can be said to have benefited both the fishing and the fish processing industries. The support to the latter is outside the scope of this Report, and Table 3 describes the different items under this Chapter, as well as their relative importance.

Table 3 Other measures, 1977-1999. Relative importance based on real value expenditure.

Other support measures	Relative share
Subsidies to reduce bait prices	55 %
Subsidies to reduce prices of fishing gear	23 %
Long-line baiting centres	13 %
Support to sealing	6 %
Compensation for net damage caused by seals	2 %
Operating fund, wet fish trawlers	2 %
Other measures' share of total expenditure to the fishing fleet under the General Agreement	7 %

Table 3 shows that the most expensive arrangement was to ensure lower bait prices for the fishermen, which was accomplished by both price and transport subsidies, a scheme that ceased to exist in 1995. Today, most of the transfers for other purposes go to long-line baiting centres and sealing. In fact, these are the only schemes that have been in effect the last four years. The importance of other measures in the General Agreement has been low, amounting to only seven percent of the total transfers to the fishing industry during the period. However, its significance has increased, as the appurtenant share in the last five years has been 19 percent. Figure 7 explains the nominal and real values of transfers for other purposes during the period.

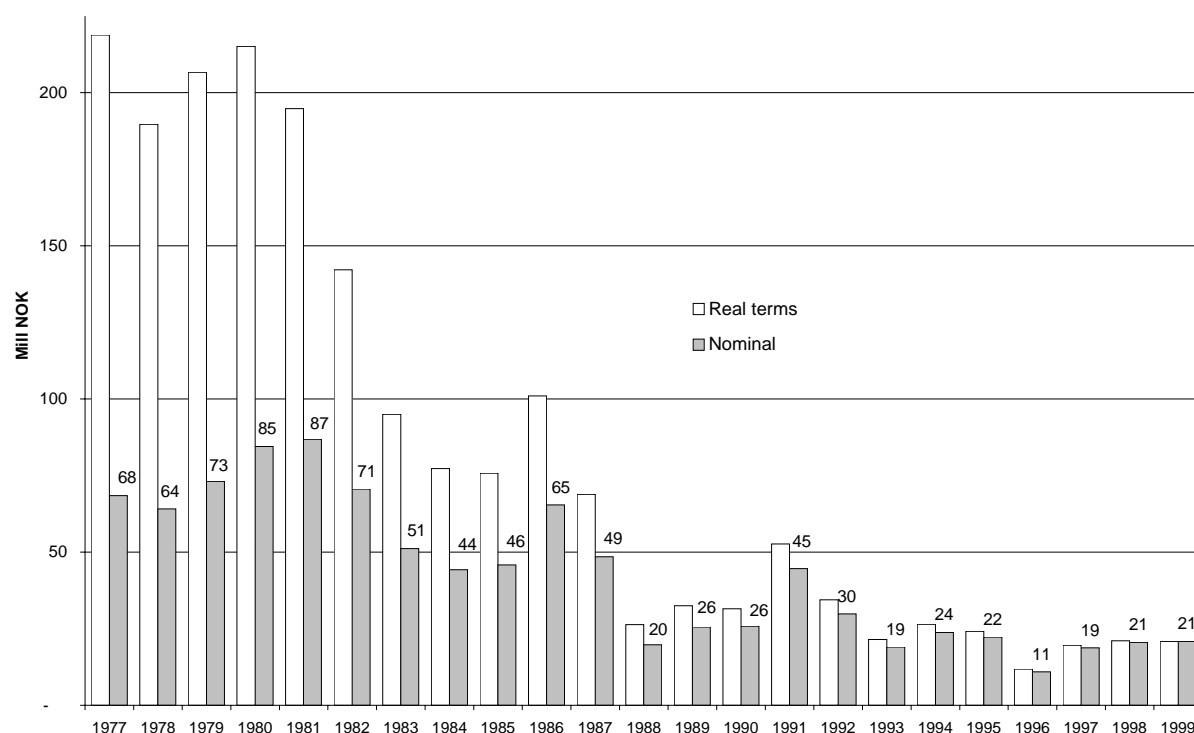


Figure 7 Total expenditures for other measures, 1977-1999, nominal and real terms (1999 NOK)

In total, other measures for the fishing fleet under the General Agreement have received NOK 985 million, or NOK 1,400 million in real value terms. Over the last ten years, nominal transfers have been relatively constant, although the reduction in total transfers over the General Agreement has caused an increase in the relative importance of these.

As mentioned in Section 3.1, the nature of the General Agreement has altered over the years, whereas some transfers under the State Budget, from which the fishing industry also benefits, are no longer part of the General Agreement. Also, an item entitled “*Miscellaneous*” in the General Agreement, to which transfers are jointly set by the Norwegian Fishermen’s Association and the Ministry, is excluded in this treatment, because the beneficiary cannot be said to be the fishing industry directly.

3.2 National Investment Schemes for Fishing Vessels

During the period 1977-1999, various investment schemes have existed for fishing vessels, sorted under two different governmental bodies. The National Fishery Bank (NFB) was in operation until 1 January 1997, when the Norwegian Industrial and Regional Development Fund (SND) took over all its activities and obligations. Accordingly, subsidised loan agreements that were not regionally defined were to be phased out due to international obligations.

The closing of the NFB and the transfer of tasks to the SND is said to form a progress for the fishing industry, since it can utilise all the measures that are available to all Norwegian industries. However, it creates at least a statistical problem, because the transparency and reporting routines are not as advanced as the former institution, at least not at this stage. Accordingly, there have been problems obtaining data regarding transfers to the fishing industry in accordance with those published in Flaaten & Isaksen (1998), which generally resulted from reports to the Storting on the NFB’s activities. Therefore, Figure 8 and Figure 9 below are followed up by a section on the two institutions individually. Without going into detail in the calculations, Chapters 2414 and 2415 in the “National Accounts”, concerning transfers to the NFB and the SND respectively over the Ministry of Fisheries budget, have been combined.

Figure 8 gives an impression of the total lending subsidies during the period. The black components of the bars show the direct governmental transfers to the NFB or the SND⁴. The grey components show support to the fishing vessel owners for the construction of new vessels and for major rebuilding of old ones. Support to the shipyards is not included in this Report. The support to vessel owners commenced in 1986 and includes support for investments, interest, contracting and building loans. Finally, the white components show the calculated interest support in the period.

⁴ What is reported, are the account figures in Chapters 2414 and 2415, Items 70 to 75, from National Accounts. These were *interest covers* for benefit- and second priority loans (1977-1982 and 1986-1999), *support to fishing vessel contracts* that received interest support (1986-1999), *interest support for ordinary loans* (1986-1996) and *investment support* to fishing vessels in the north of Troms County and in Finnmark (1989-1991). Transfers to cover losses and administrative expenses are not included, inasmuch as these accumulate in every bank.

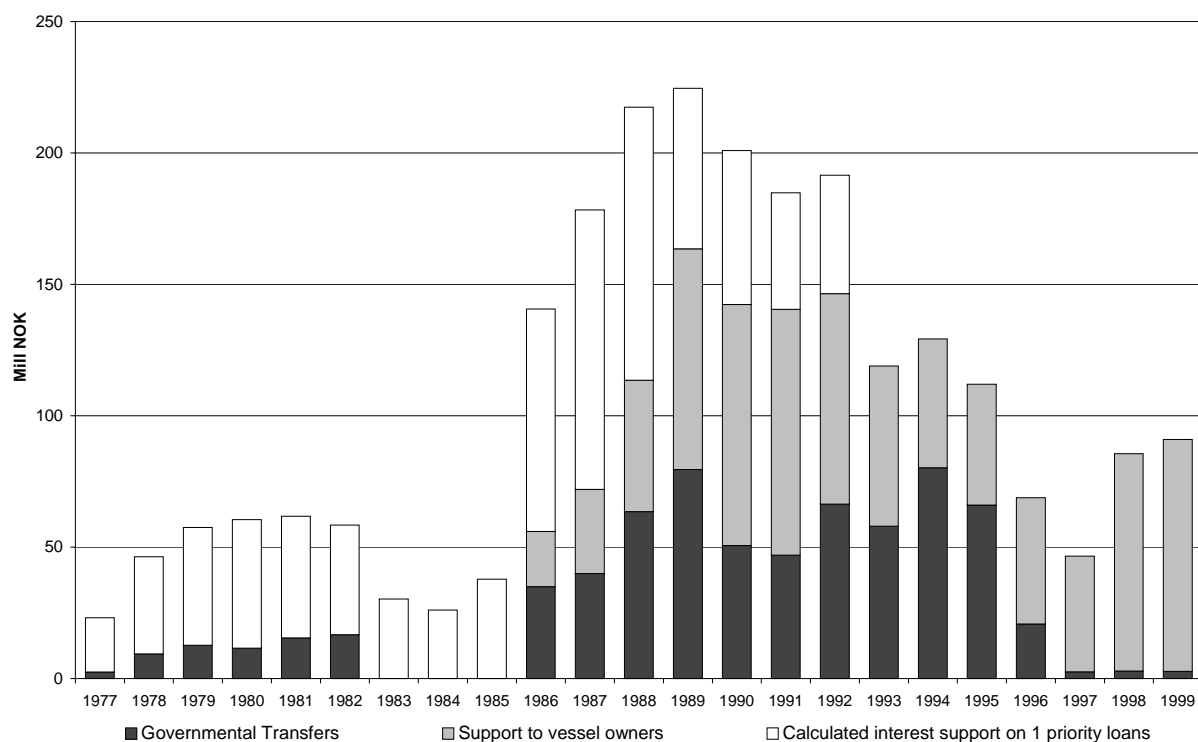


Figure 8 Total lending subsidies to the fishing fleet, 1977-1999. Includes governmental transfers (National Accounts), support to vessel owners and calculated interest support

The calculated interest support was negative in 1992, but has been made equal to zero in this Report for the period covering 1992-1996. However, the calculated negative values of the NFB rates are significant and amounted to as much as NOK 41 million in 1993, with only minor numbers the following years. The investment scheme for fishing vessels in North Norway amounted to a total of NOK 42 million (NOK 48 million in real terms) over the years from 1989 to 1991, and in 1999. Transfers to cover the losses of the NFB⁵ are not included in Figure 8. For 1991-1997, such transfers totalled NOK 375 million.

⁵ At total transfer of NOK 41 million in 1997 was placed at SND's disposal for loan loss provisions stemming from the NFB.

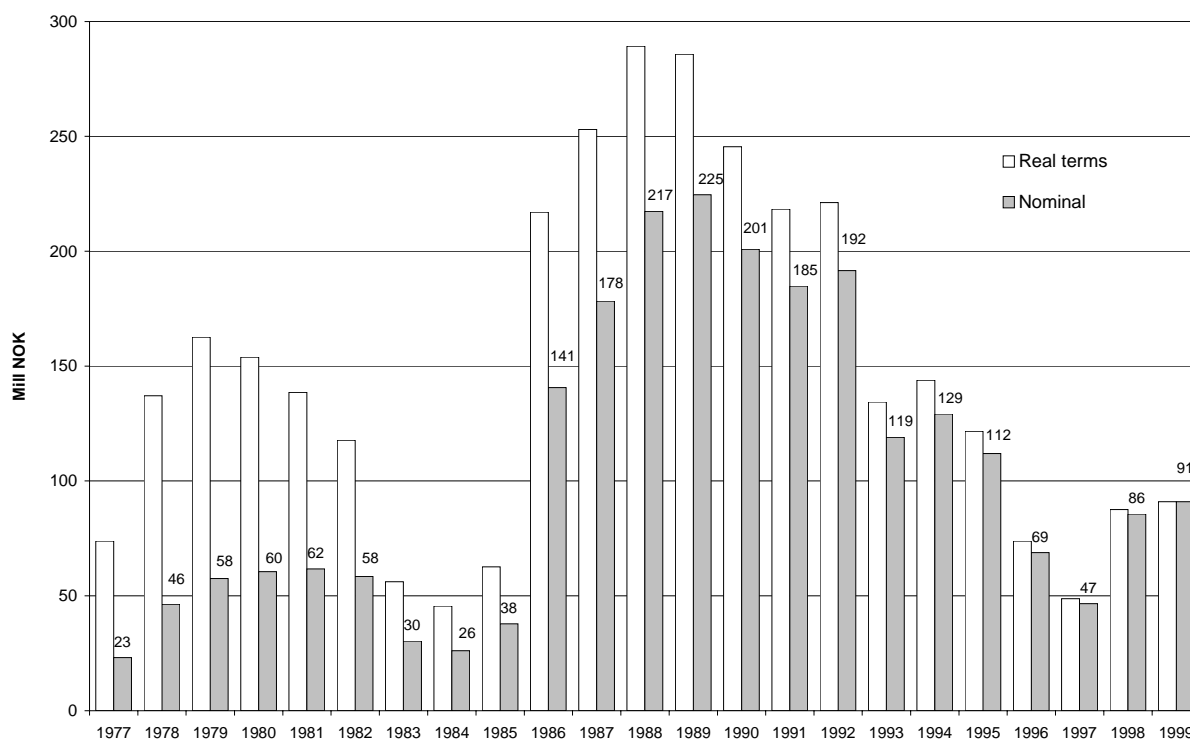


Figure 9 Total lending subsidies to the fishing industry by the NFB and SND, nominal and real terms (1996 NOK), 1977-1999

Figure 9 shows the total lending subsidies related to the national investment schemes for fishing vessels during 1977-1999 in nominal and real terms (1999 NOK). Although the capital subsidies of the NFB have historically been small compared to the General Agreement support, they amounted to nearly the same figure during 1993-1999. Note that the high subsidy in the years 1987-1992 is due in large part to the interest margin between market and NFB rates, and therefore the calculated interest support.

3.2.1 National Fishery Bank

The National Fishery Bank (NFB) was the administrator of the National Investment Scheme for fishing vessels until 1997. It was also responsible for executing various arrangements according to the General Agreement.

The NFB's main objective was to give first priority mortgage loans for up to 70 percent of the purchase price of new vessels. In addition, the authorities instructed the NFB to give second priority and benefit loans to the fishing fleet and the fish processing industry. A major alteration within funding of fishing vessels occurred in 1986. Since then, a distinction was made between loans for new vessels and for major rebuilding of vessels, and to loans for other purposes such as the purchase of used vessels, fishing gear and for minor rebuilding of vessels. Under the first arrangement, during 1986-1989, vessel builders were paid interest subsidies over several years⁶. From 1990, the interest subsidy became a lump sum payment, and until 1994, the Ministry of Trade and Industry administered the funding through the

⁶ As late as 1996 it is stated (in Report no 9 to the Storting on the activity of the NFB in the years 1995 and 1996) that several vessels still are getting paid interest subsidies due to contracts signed before 1990. However, it has not been brought to light whether these continue after the SND take-over, and conclusions hereinafter should therefore be treated with caution, due to this limitation.

central bank. Thereafter, in 1995 and 1996, the funding was under the budgets of the Ministry of Fisheries.

The average market interest rates for most of the period exceeded those of loans from the NFB; therefore, an interest subsidy has been calculated for 1977 to 1992. After 1992, however, the interest rates given by the NFB were higher than those of commercial banks were. The value of support through the NFB's lending programmes has been calculated. First, the NFB's interest rates were lower than the market rates during most of the period. Indirectly, this was a governmental transfer, since NFB's low interest rates were due to the solidity of the State, from which other industries did not benefit. Second, the NFB's main objective was to give first priority mortgage loans for up to 70 percent of the purchase price of new vessels. The responsibility for second priority and benefit loans⁷ was assigned to the authorities, which had to bear the associated costs that exceeded the ability of the NFB. Therefore, the bank received contributions for this activity on several occasions by means of direct governmental transfers. Thus, in this calculation of transfers to productive capital, the difference between the average market rate of interest and the NFB interest rate (of first mortgage security) is regarded as a subsidy. In addition, all direct transfers in settlement of second priority and benefit loans, including interest support and other investment support schemes, are included.

3.2.2 Norwegian Industrial and Regional Development Fund (SND)

Since 1997 and the integration of the NFB into the SND, the fishing industry has had the same "public" lending opportunities in the SND as all other Norwegian industries. However, some arrangements that were formerly carried out by the NFB have been prolonged within the bodies of the SND, such as support for decommissioning of vessels, to which some of the funding stems from the General Agreement.

Until 1999, SND was also responsible for the contracting support, and the lump sum payments arising from the arrangement that existed from 1990 on. However, for 1999, the arrangement was altered from only taking care of the renewal of the fleet, to include capacity adjustments within the fleet. As a consequence, the new funding scheme was to support three different types of adjustments within the fleet: Fishermen who built new vessels, fishermen who withdrew their vessel from the fishery on a permanent basis ("pure decommissioning"), and fishermen who, in addition to withdrawing an old vessel from the fishery, were to continue their activity with a more modern and effective vessel ("combined decommissioning"). However, the figures behind the 1999 bar in Figure 8 and Figure 9 do not distinguish to which of these three purposes the money has been channelled, but only the joint sum of the expenditure to the three.

For most of the capital channelled under the SND, fishing vessel owners have to compete with other industries within their region in order to obtain funding for any new building or rebuilding of vessels⁸. Thus, the SND can contribute either district aimed venture capital loans

⁷ The NFB's ordinary activity involved lending with first mortgage security in the object, so-called first priority loans. The authorities instructed second priority and benefit lending tasks. Capital was supplied to the NFB when the ordinary activity was unable to carry the expenses related to second priority and benefit loans. Benefit loans were interest free and irredeemable the first 5-10 years.

⁸ Or in their own words: "In general, SND can today only support newbuilding of fishing vessels to a very limited extent." (www.snd.no/internett/content.nsf/UNID/1CA62D53FA6DA82CC125683C005A9DA4)

or investment support only within the regional policy areas of Norway (priority A to D) defined by regulation.

3.3 General Services

To present a precise figure of the amount of *general services provided to the fisheries*, including costs associated with fisheries management and research paid by the authorities, requires a time- and work-consuming effort. There are, however, estimated figures in earlier governmental reports, as well as in later research. In the report to the Storting No. 58 (1991-1992): "On the structure and regulation politics towards the fishing fleet", the calculated costs of managing the fisheries in 1991 were estimated to approximately NOK 500 million. Half of this was related to the Coast Guard's surveillance activities. The other half was comprised of research, advisory work and administration carried out by the Ministry of Fisheries, the Directorate of Fisheries, the Institute of Marine Research, municipal fishery committees and others. As related to the total sales value of the landings, management constituted 9-10 percent. It is believed that this proportion increased from 2-3 percent from the early 1970's, due to increased regulations and, therefore, surveillance, enforcement and research. The founding of the 200-mile EEZ in 1977 represented a major turning point, followed by international management negotiations and obligations. Throughout the 1980's, the pursuit of sustainable levels of fish stocks made it necessary to introduce new quota regulations, which in turn increased the need for administration, control and research.

A more recent estimate is brought forward in letter from the Ministry of Fisheries, on request from the OECD Fishery Committee, which relies on a work by Arnason & Hannesson (1999), though deviating slightly from this. In this letter, the total cost of general services to the fishing industry in Norway in 1997 is presented, divided into the following sub-chapters, as reported by Table 4.

Table 4 General services paid to the Norwegian fishing industry, 1997. Source: Letter from Ministry of Fisheries to the OECD Fisheries Committee

	<i>Comment</i>	<i>Million NOK</i>
Ministry of Fisheries	Management of capture fisheries estimated at 40 percent of total net costs of the Ministry	21.1
Membership in International Organisations		3.5
Institute of Marine Research	Percentage connected with fisheries estimated at 75 percent of total costs	95.4
Research Vessels		71.0
Directorate of Fisheries	50 percent attributable to management cost	95.3
Coast Guard	About 60 percent of total costs (and activities) linked to Norwegian fisheries	407.6
Total		693.9

As seen from the table, the Coast Guard is still the major expenditure item, with almost 60 percent of total costs. In 1997, general services constituted about 7.5 percent of the catch value, a notable decrease from the situation in 1991, as accounted for above. The study by Arnason & Hannesson concluded that the management and enforcement cost in 1997, which

is transparent with the total costs for general services in Table 4, amounted to NOK 677.2 million, mainly due to lower estimated costs for the Coast Guard. In their calculations, the costs for General Services have declined by 8.5 percent during 1990-97, in real value. The proportion of these costs to value of landings has also declined, from almost 13 percent in 1990 to 7 percent in 1997.

3.4 Other Subsidy Arrangements

The Norwegian fishing industry has benefited from other schemes in addition to direct governmental transfers. In this section, three arrangements will be examined. These are the refund and exemption from the mineral oil tax, the product fee and the reduced Value Added Tax (VAT). The second can in fact be considered a negative subsidy.

3.4.1 Refund and Exemption of Mineral Oil Tax

The refund and exemption of mineral oil tax has existed for the Norwegian fishing fleet for a number of years. Other parts of Norwegian industries and commerce, such as the shipping industry and the oil-producing installations in the North Sea, have also benefited from this arrangement. Others, like the wood-processing industry and the fishmeal and fish oil industry, paid only half the mineral oil tax during most of the period. For vessels in distant water fisheries (operating more than 250 nautical miles off the Norwegian coastline), a total exemption (from both CO₂ and SO₂ tax) has existed since 1989⁹. For the coastal fisheries (vessels registered in the Fishing Vessel Register at the Directorate of Fisheries), a refund scheme for the CO₂ tax (called basic fee until 1992) existed in the same period. The Fishermen's Guarantee Fund administered this. The actual CO₂ tax on mineral oil varied from NOK 0.21 to 0.62 per litre in 1989 to 1999, as shown in Table 5. The SO₂ tax is a progressive duty, and varied between NOK 0.025 and 0.07 for each commenced 0.25 percent weight unit sulphur, per litre mineral oil.

Table 5 reports the total monetary effects from the loss of tax revenue due to the schemes for the fishing fleet during the period 1989-1999. The coastal – and distant water – fleet's share of this amount is also included in the table, as well as the excise rates. Total oil consumption for the Norwegian fishing fleet in million litres, as estimated by Statistics Norway, is reported in the second row. All figures are in NOK million, nominal terms, and excise rates are in NOK per litre.

⁹ In Proposition No. 1 to the Storting (1987-88): "Government Taxes and Excise Dues", and in a letter from the Directorate of Customs and Excise to the Ministry of Finance and Commerce, dated 8 January 1987, fishing vessels in distant fisheries are for the first time proposed exempted from paying the mineral oil duty. However, it is stated that this is only a natural prolonging and formalisation of the practice that already existed. The scheme may therefore have existed for some time, outside the knowledge of the proper authorities.

Table 5 *Estimated revenue loss for the Government due to refund of CO₂ tax for the coastal fisheries and mineral oil tax exemption for distant water fisheries, and excise rates for mineral oil duty during the period 1989-1996. Source: Fishermen's Guarantee Fund, Statistics Norway, Directorate of Customs and Excise, Ministry of Finance and Commerce (all personal information) and SSB (1994:52).*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
Oil consumption, in million litres*	506	522	478	449	438	458	464	518	543	561	554	
NOK	Basic fee	0.21	0.31	0.32	(^{0.32} / _{0.17})	-	-	-	-	-	-	
	CO ₂ tax	-	-	0.30	0.30	0.40	0.41	0.415	0.425	0.435	0.445	0.46
	SO ₂ tax (for each commenced 0.25 % weight share)	0.025	0.05	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	
Million NOK	Refunded CO ₂ tax to the coastal fleet	44	38	63	82	74	83	91	114	120	133	146
	Estimated revenue loss in distant water fisheries	96	164	296	215	144	149	150	158	169	171	164
	Estimated total revenue loss	150	202	359	297	219	232	240	272	289	304	310

*) Lubrication oil and refuelling outside Norway are excluded.

The brackets for 1992 in Table 5 correspond to a mid-year change in the basic fee, and the high figures in 1991 and 1992 are due to the simultaneous existence of both the basic fee and the CO₂ tax. The former came to an end in 1992, and the latter was introduced in 1991. The figures for the coastal fisheries are based on accounting data from the Fishermen's Guarantee Fund, whereas total and distant water loss is estimated. A curiosity found during the estimations is that distant water fisheries have reduced their share of the total oil consumption during the period, from more than 70 percent to less than 45 percent. This can be due to less activity outside the 250 nautical mile zone, or simply because of new logistic arrangements within offshore refuelling.

Although the CO₂ and SO₂ tax exemption arrangement has seemingly meant a weighty subsidy for the fishing fleet, we have decided not to include these figures in the total amount of transfers to the fishing industry. The reason for this is that the fishing fleet is only one of many industries that have benefited from such schemes.

In an Official Norwegian Report on Green Taxes¹⁰, it is stated that if taxation in the fishing fleet switched from taxation of labour (i.e. the product fee) to taxation of energy (CO₂ tax), the profitability in the industry would deteriorate, as the fleet has relatively high emissions. Also, the distant water fishing fleet would be relatively worse off than the coastal fleet.

3.4.2 Product Fee on Fish

The product fee is a duty on first-hand sale of fish paid by the fishermen/vessels in settlement of certain Social Security arrangements¹¹. For later years (1995-1999), it has ranged from 2.8 to 3.5 percent of the total ex-vessel value of fish. In 1995 and 1998, a mid-year reduction of the fee was imposed, due to increased revenues compared with the budgeted incomes. Earlier

¹⁰ Official Norwegian Report no. 9, 1996: "Grønne skatter – en politikk for bedre miljø og høy sysselsetting", (in Norwegian); "Green Taxes – a policy for better environment and high employment".

¹¹ These are the differences between medium and high rates of National Insurance contributions (2.9 percent of gross income), occupational injuries insurance (0.2 percent of gross income), unemployment benefits, and collective supplementary insurance for sickness benefits.

plans to co-ordinate this fee with the ordinary payroll tax, paid by other Norwegian industries, have been abandoned.

This fee, paid by the fishing vessels/fishermen, can be considered a negative subsidy. However, no adjustment has been made for it in this Report. The total annual amount of the product fee varied between NOK 62 million and NOK 334 million during the period 1977-1999, with the highest amount in 1998, as shown in Figure 10. However, this can deviate slightly from the *accrued* fee during the actual year, because the sales organisations pay this up to two months in arrears. Other sources of errors include the fishermen's own takeover of the catch, for selling it at a later stage, or fishermen's direct sales of fish.

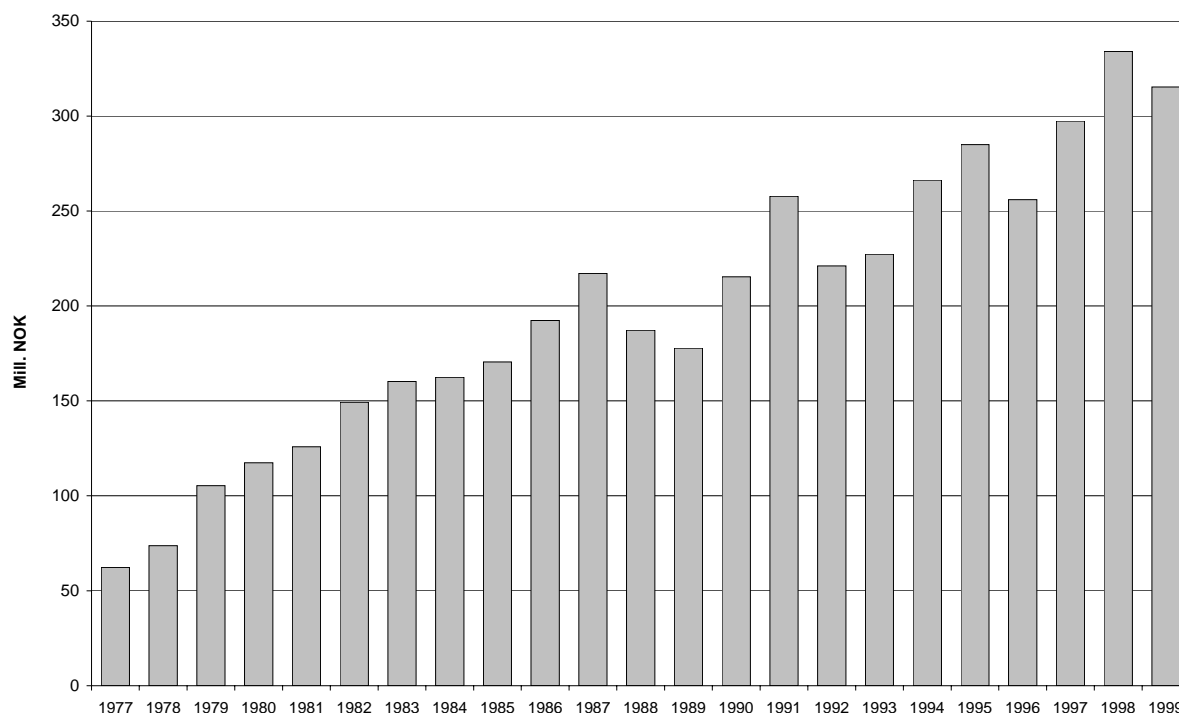


Figure 10 The product fee on first-hand sales of fish, 1977-1999. Source: Statistics Norway and National Insurance Administration

As is shown in Figure 10, the trend somewhat follows the value of catch in Figure 1, most certainly because the fee is a proportion of this. In a recent letter from the Ministry of Finance, answering a question from the Storting on whether this scheme was on a net surplus or deficit the latest five years, the Minister reported an overall surplus of about NOK 32 million.

In addition to the product fee, fishermen also pay a duty to cover the efforts of the sales organisations. This fee varies between the different sales organisations, and is not to be treated as a negative subsidy since it covers the costs that accrue due to the existence of sales organisations owned by the fishermen, and their legislative right to the first-hand sale of fish. Today, a R&D-fee on sale of fish is to be introduced, but most likely, this will be imposed on the export chain, like the export duty on fish.

3.4.3 Reduced Value Added Tax (VAT)

On first-hand sales of fish – as well as crustaceans, whale and seal – Norwegian fishermen only vouch for a reduced rate of VAT on the value of the catch, when sold to or through a sales organisation. This output VAT rate was set at 11.11 percent when VAT was introduced in Norway in 1970, and has been the same in subsequent years although the ordinary VAT rate has changed twice¹². The reasoning for this lower VAT rate for fishermen is to be found in the preparatory law documents for the Storting¹³, where it is argued that this is because the vessels – and maintenance on these – are not subject to excise duties. Therefore, fishermen will have less input VAT for which to compensate than others, and the output tax was set at a lower rate. In addition, fishermen have VAT return payments once annually, as opposed to other self-employed people who pay their VAT return every second month. This corresponds with farmers, for instance, and stems from the seasonal nature of fisheries.

This lower rate of output VAT for fishermen cannot be considered a subsidy, since this is an excise duty on *consumption* where the total number of distributive trades have no significance on the total VAT collected by the authorities. Where the fishermen have a more agreeable VAT return, at least as long as the sales are conducted through the sales organisation, the discrepancy between input and output VAT will be greater at the adjacent stage of the value chain. However, the total VAT income for the Government will not constitute a great deal as compared with the value added in the industry, inasmuch as this is a duty on domestic sales, and the fisheries industry is indeed an export industry.

3.5 Summary on Subsidies to the Fishing Industry

Figures 1 and 2 show a fair estimate of the importance of the Norwegian fishing industry. Since they include subsidies, however, the overall illustration can be improved if total support is related to the income figures. Therefore, in Figure 11, the real value (1999 NOK) of the total governmental transfers to the fishing industry is shown in relation to both the total sales value from the fishing industry, as well as the total value stemming from the total export and value of domestic consumption of harvested fish. The total transfers include subsidies under the terms of the General Agreement as well as financial support via the NFB and the SND. Note that the price support, when existing, is included in the total sales value.

¹² Until January 1993, VAT was stable with a 20 percent mark-up on the price. Then it rose by two percentage points, to 22 percent. In January 1995, it was increased by one percentage point to its present rate, 23 percent.

¹³ Proposition to the Odelsting No. 17 (1968-69): “Innstilling fra skattekomiteen av 1966. Underutvalget for omsetningsavgift.” Annex 1.

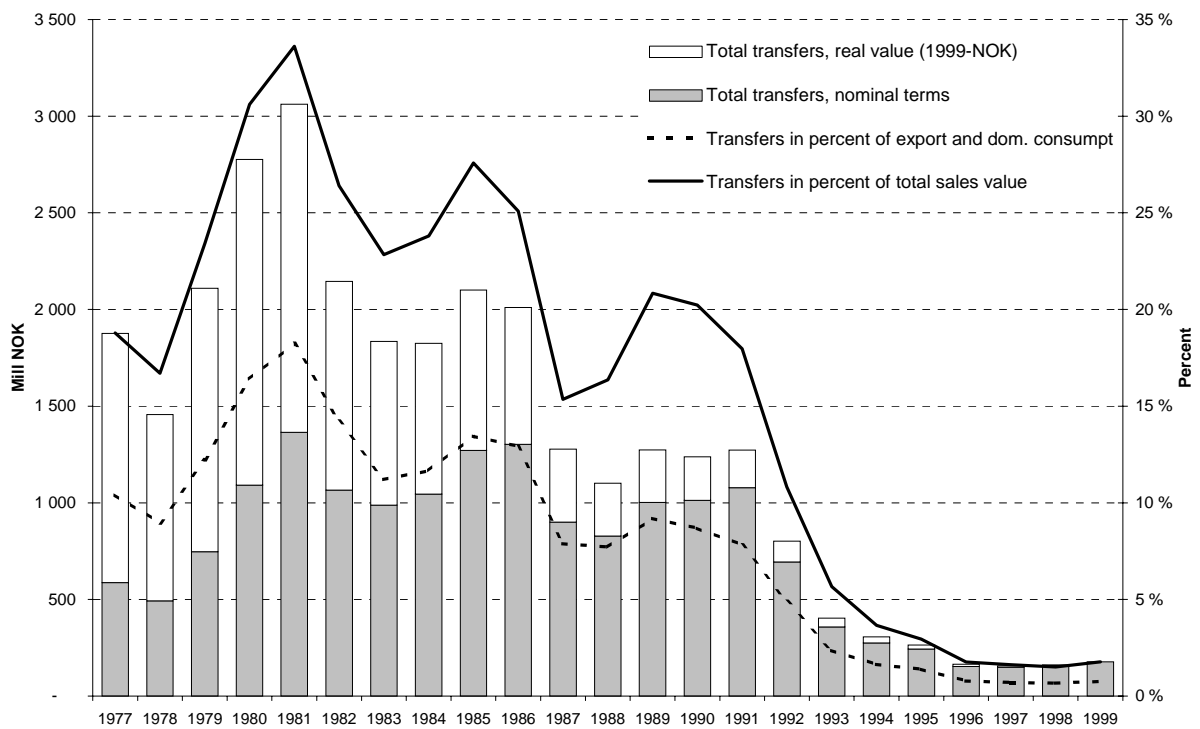


Figure 11 Total transfers to the fishing industry in nominal and real value terms (1999 NOK), and its share of total sales value and export value of catch, 1977-1996

Figure 11 shows that the total transfers increased through the end of the 1970's, peaked in 1981, and decreased in later years as the industry became more profitable. International obligations have made a major contribution towards the reduction of support in the 1990's. The ratio of total transfers to total sales value varied between 34 percent in 1981 and 1.5 percent in 1998, whereas the ratio of total transfers to the export value and value of domestic consumption varied between 18 percent in 1981 and 0.7 percent in 1997 and 1998. If one allows taking the mineral oil tax exemption into consideration as a support measure, the corresponding ratios in 1998 would be 4.5 and two percent, respectively. Increased support from 1998 to 1999 under the General Agreement and the transfers under the SND, at the same time as both export value and total sales value fell, are the cause for the slight rise in relative figures, slightly offsetting the promising development in the 1990's. However, allowing adjustments for the product fee described above, the Norwegian fishing industry has been free of Government net transfers since 1995.

4 FISHING CAPACITY

One of the major problems in world fisheries is overcapacity in the fishing fleets. In the following, capacity measures such as number of vessels and fishermen, tonnage and engine power will be addressed as regards the total Norwegian fleet and the all-year operated fleet. The figures can also be compared with the parent fishery policy, its targets for the fishing fleet capacity, and the aims of the various commissioning and restructuring schemes during the period.

4.1 Number of Fishing Vessels

The *total number of fishing vessels* in Norway declined during the period 1977-99, mainly because of a clear reduction in the number of open vessels, as shown in Figure 12. From a total of almost 27,000 vessels in 1982, this figure was virtually halved to 13,200 in 1999. (In 1977, there were 17,200 open vessels registered in the Vessel Registry at the Directorate of Fisheries. Twenty-two years later, the number declined to 4,750 open vessels used for commercial fishing.) The number of decked vessels increased until 1984, then decreased just a little until 1999. In 1977, decked vessels constituted 31 percent of the total number of vessels. In 1999, this figure had increased to 64 percent.

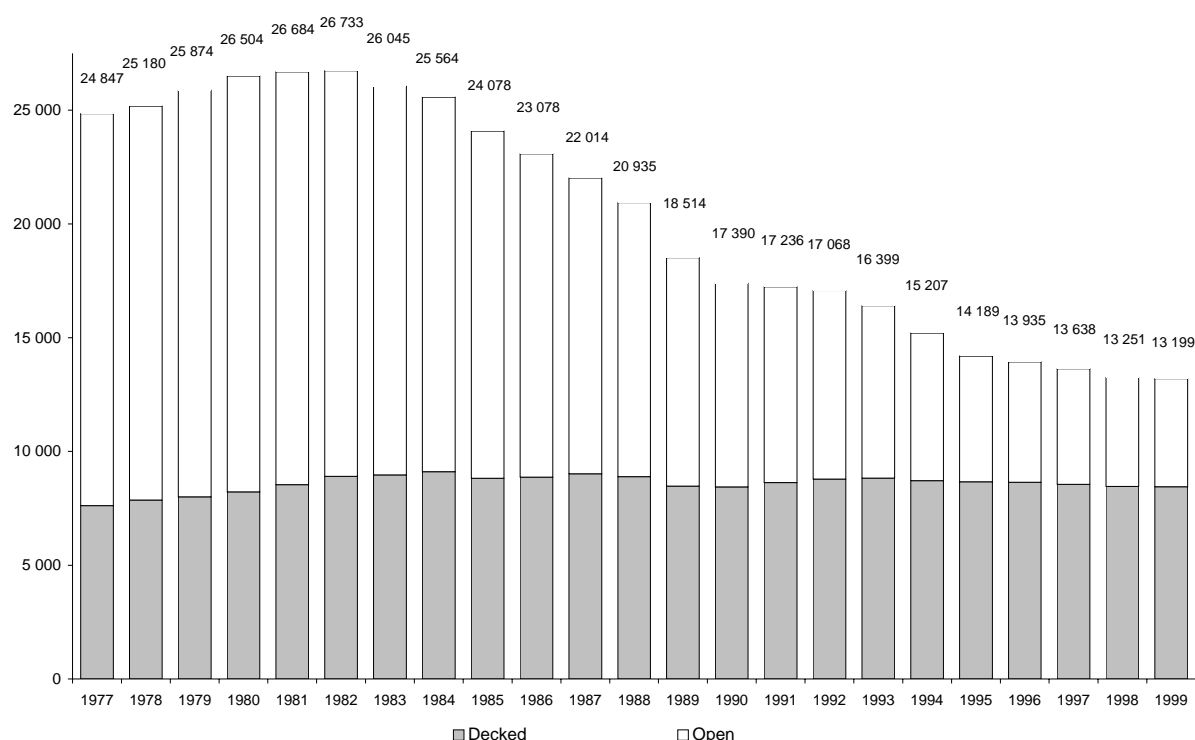


Figure 12 The number of registered open and decked vessels used for commercial fishing in Norway, 1977-1999. Source: Statistical Yearbook, Statistics Norway and Directorate of Fisheries

Although the Norwegian fishing fleet consists of a large number of vessels, only some are regarded as operated on an all-year basis. To get a better idea of the real harvest capacity of the fishing fleet, Figure 13 shows the number of all-year operated vessels during the period for two main length groups: Between 8 and 13 meters, and above 13 meters. The catches of

two groups represented 87 percent of the value from the total catch in 1998, 6 and 81 percent, respectively.

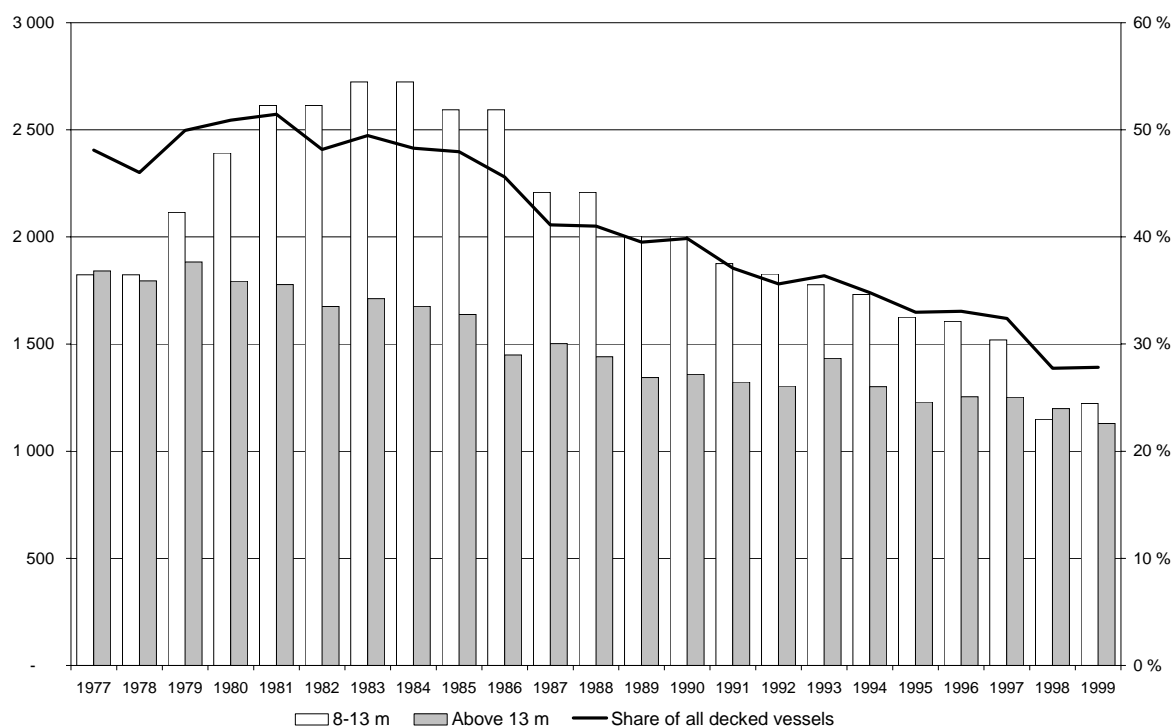


Figure 13 Number of all-year operated fishing vessels, (8-13 metres, above 13 metres), and share of all registered decked vessels, during the period 1977-1999 (preliminary figures for 1999). Source: The Budget Commission of Fishery and Directorate of Fisheries

Figure 13 shows that both groups of fully operated vessels are substantially reduced during the period, in absolute terms as well as in relation to the number of decked vessels. During the last five years, the smaller vessels were reduced by 18 percent, while the larger fell by 8 percent. The criteria to be included as an all-year operated vessel have undergone alterations throughout the years, but not in such a way as to budge reality.

4.2 Number of Fishermen

The number of fishermen¹⁴ who received all or a major part of their income from fisheries, sealing or whaling shows the same tendency as the total number of fishing vessels – a decline. Figure 14 illustrates that the number of fishermen decreased from 33,000 in 1977 to 21,000 in 1999. An amendment of the registration regulations in 1982 was a major cause for the decline. A minor revision of the Registry in 1993 also makes comparing the number of fishermen over time somewhat more difficult. The number of fishermen shown in Figure 14 is divided into those who have fishing as the main (or sole) occupation and those who have fishing as a secondary occupation.

¹⁴ Fishermen are those listed in the Municipal Register of Fishermen who have a fixed minimum time of participation in fisheries as well as a fixed minimum income from fishing.

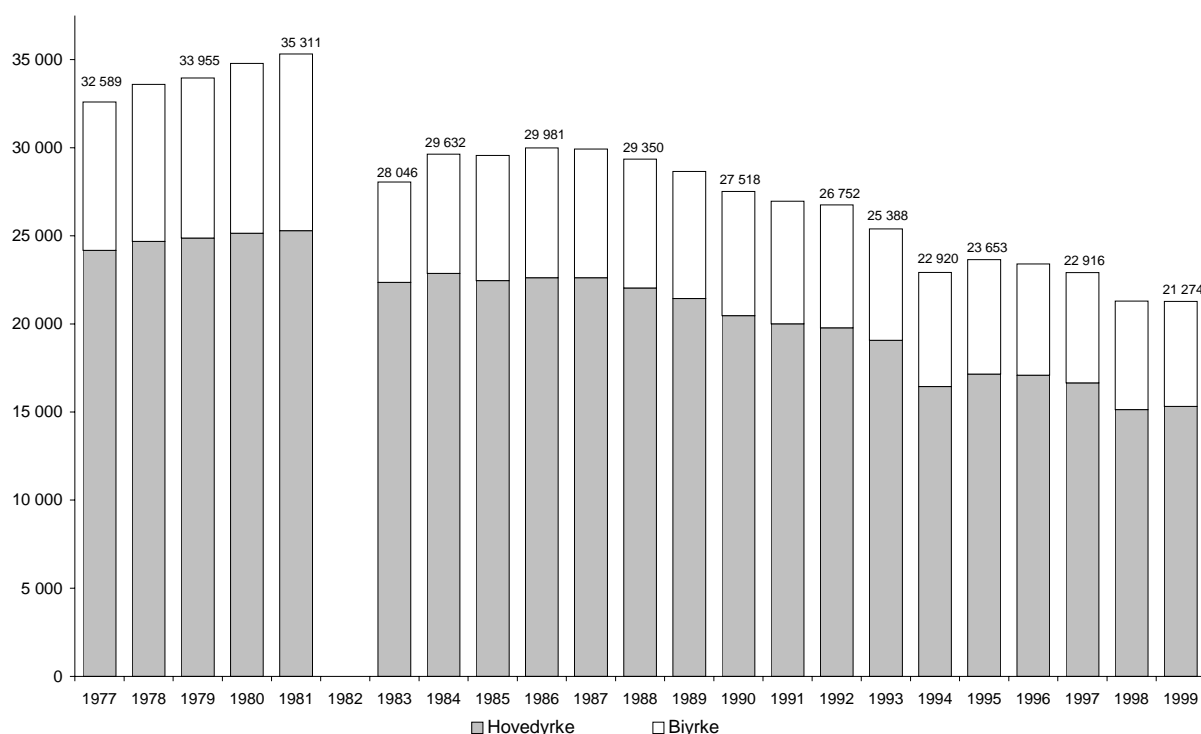


Figure 14 The number of fishermen who had fishing as their main or secondary source of livelihood, 1977-1999. Sources: Statistical Yearbook and Fishery Statistics, Statistics Norway, Directorate of Fisheries

The law amendment in 1982 represented an artificial decline in the number of fishermen (approximately 7,000-8,000) from 1981 to 1983. Furthermore, the revision in 1993 implied an exclusion of those fishermen who had not paid their tax to the Fishermen's Pension Fund. Overall, main occupation fishermen comprised about 70-76 percent of the total number of fishermen during the period, and the total decline has been approximately 35 percent.

As regards the all-year operated vessels, a comparable series of the number of fishermen employed is not provided for this fleet in the annual profitability studies. However, for 1998, the total employment is estimated to be 11,437 for this fleet, of which 1,623 stem from the small vessels (8-13 metres). Compared with the total number of fishermen, the all-year operated vessels therefore employ about 54 percent of the total.

4.3 Gross Registered Tonnage

Another way of measuring the fishing fleet's capacity is by the use of volume or weight. In Norway's case, however, this is not a simple task. There are at least three problems: First, there have been two different methods for measuring the tonnage of fishing vessels during the period 1977-99. The oldest, Gross Registered Tonnage (GRT), was replaced in 1982 by Gross Tonnage (GT). Quantifying the extent of this change is outside the scope of this Report. However, the latter one includes more vessel cavities than the former. There also seems to be a tendency in statistical sources to measure new vessels in GT instead of GRT. Second, GRT for open vessels was only registered up until 1984, since cavities for open vessels were not particularly meaningful. Third, for the years after 1992, official statistics do not report the GRT for decked vessels, but only GT. Hence, one cannot place too much emphasis upon fishing vessel tonnage statistics without a great effort to make the figures comparable over time, something that is not done in this Report.

However, Table 6 states the development in both GRT and GT tonnage for all registered decked vessels during the period 1993-1999. As is evident, more and more vessels are measured in GT, due to national demands on certification etc., as GRT is to be phased out.

Table 6 *Total and average tonnage for decked vessels from 1993-1999. Source: Directorate of Fisheries*

		1993	1994	1995	1996	1997	1998	1999
GRT	Total tonnage	153,513	113,408	112,454	94,198	91,520	92,287	91,244
	No. of vessels	8,578	8,383	8,317	8,234	8,116	8,002	7,979
	Average tonnage	17.9	13.5	13.5	11.4	11.3	11.5	11.4
GT	Total tonnage	155,080	213,217	226,469	253,341	267,022	279,122	293,046
	No. of vessels	247	330	347	419	442	459	465
	Average tonnage	627.9	646.1	652.6	604.6	604.1	608.1	630.2

While average *gross register tonnage* per vessel has dropped 36 percent during the period, average *gross tonnage* is about the same in 1999 as in 1993. However, while the number of vessels measured in GRT is decreasing, the opposite is true for GT.

By looking at vessels operated on an all-year basis (above 13 metres), we find the same tendency: From 1990 to 1998, the average GRT per vessel declined by 35 percent, while average the GT per vessel increased by 25 percent from 1994 to 1998. For 1998, the average tonnages for these vessels were 104 GRT and 622 GT.

4.4 Kilowatts of Engine Power

Another indicator of fishing capacity is *kilowatts of engine power*. In Norway, the traditional way of stating engine power is in horsepower (HP). Recalculation is easy, of course, since one HP equals 735.499 W. Total engine power for the fishing fleet was not reported in official statistical publications until 1993. The Directorate of Fisheries, nevertheless, through their Vessel Registry, has been able to provide figures of the engine power for the previous years. Note, however, that these figures have not been subject to quality assurance, and must therefore be used with caution. Figure 15 shows the total engine power of the Norwegian fishing fleet for 1977-1999.

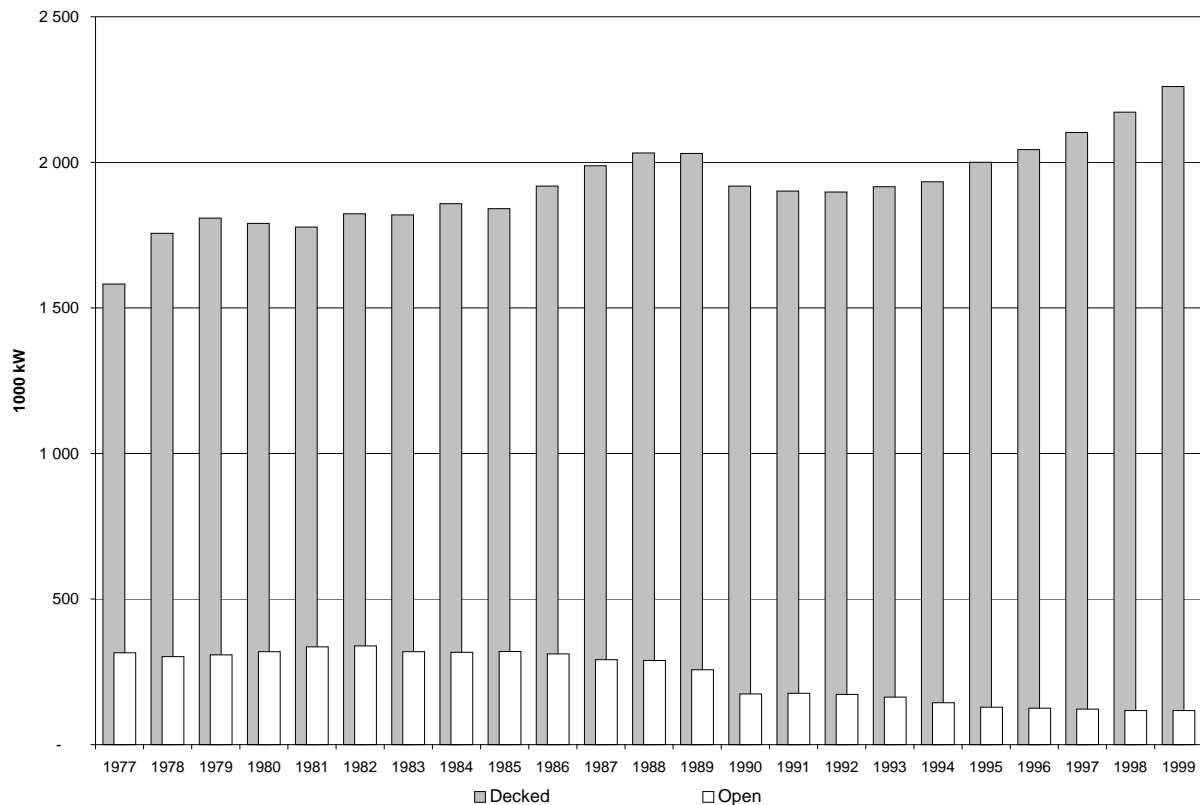


Figure 15 The total engine power (1000 kW) of the Norwegian fishing fleet, 1977-1999, open and decked vessels. Source: Data set from the Directorate of Fisheries' Vessel Registry. Not quality assured

Figure 15 exhibits a decline of 63 percent in total engine power for *open* vessels from 1982 to 1996. If we compare this decrease with the number of open vessels in Figure 12, the reduction in numbers outclasses the reduction in engine power by 10 percent. For decked vessels, there is an increase in engine power for the 20-year period shown in Figure 15. It looks like a cyclical movement, but this could just as easily be due to statistical fallacies instead of real changes. As noted above, however, this is somewhat uncertain. The total engine power of decked vessels increased from 1.6 million kW in 1977 to about 2.3 million kW in 1999, an increase of more than 40 percent. Since this is much more than the relative increase in the number of decked vessels shown in Figure 1, it implies an increase in the average engine power of decked vessels, which is in accordance with common knowledge. Average engine power for decked vessels during the period is shown in Figure 16.

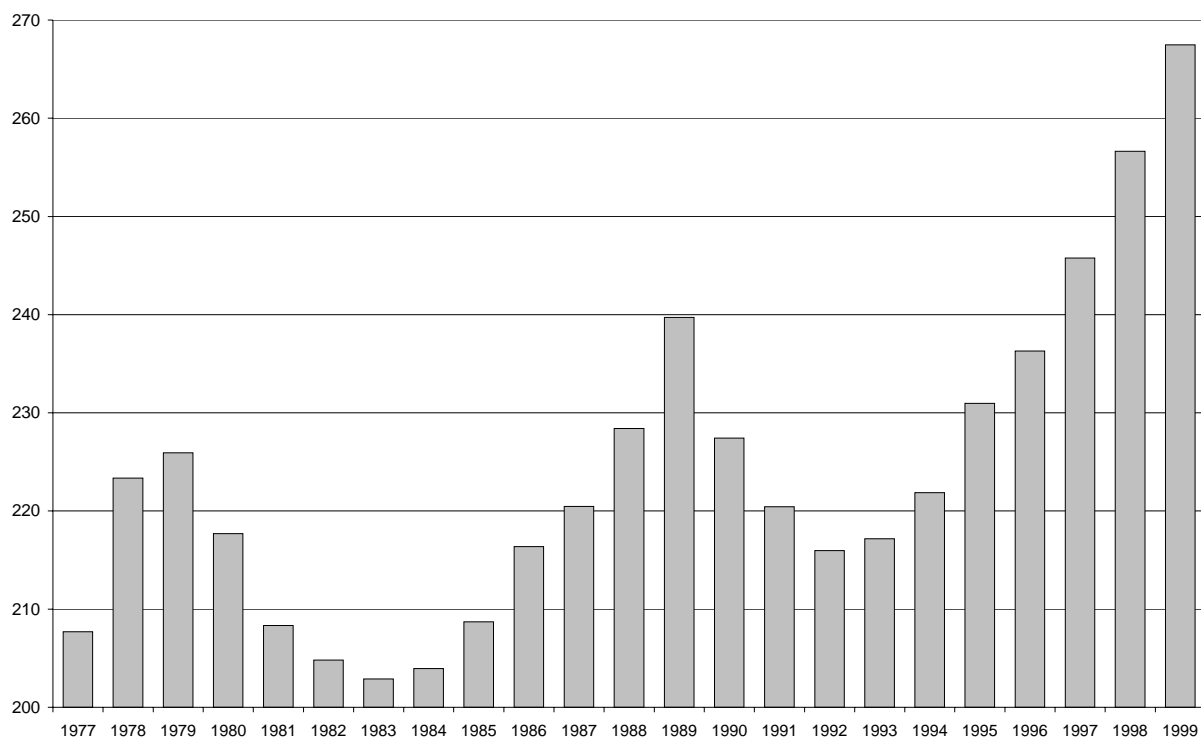


Figure 16 Average engine power for decked vessels, 1977-1999. Source: Directorate of Fisheries

As shown above, the average engine power for the total decked fleet increased by 30 percent during the period, while as much as 20 percent occurred during the last seven years. However, there have been fluctuations during the period, and by comparing the 1999 situation with 1989, the corresponding increase has been only 12 percent.

The average engine power for the all-year operated fleet is unknown, as this has not been provided in the profitability studies for the years in question. However, it is plausible to assume that most of the building up in average engine power stems from this part of the fishing fleet, where the catch and economic results have been good during latter years.

On the whole, one could conclude that overall capacity has not been reduced, despite the distinct political goals to restrict the fishing capacity in order to prevent further pressure on the marine resources (report to the Storting No. 51 (1998-99); 46). This is one of the outlines from this section.

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