

Financial and Technical Assistance to the U.S. Fishing Industry

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ONE HAS DIFFICULTY in knowing what to include in a discussion of activities which provide financial and technical assistance to the U.S. commercial fishing industry. Certainly most of the programs of the Bureau of Commercial Fisheries (BCF) were designed and are intended to benefit the industry, in one way or another. For it is only through a profitable and viable fishing industry that the optimum utilization of our fishing resources can be achieved. Many programs such as market news reporting, statistics collection and dissemination, marketing development, voluntary inspection and the grade standards work, exploratory fishing, gear studies and development, international negotiations and enforcement, the Fish Protein Concentrate (FPC) Program, as well as our biological research, provide needed information about the resource itself and are of direct benefit to the industry. Some programs are designed to provide relief of a short-term nature while others attempt to attack the longer-run problems.

BCF administers four financial assistance programs which provide immediate direct aid to the commercial fishing industry: (1) the Fisheries Loan Fund Program provides assistance for financing or refinancing the cost of purchasing, constructing, equipping, maintaining, repairing or operating new or used commercial fishing vessels or gear to qualified applicants; (2) the Fishing Vessel Mortgage and Loan Insurance Program provides insurance or guarantees repayment of certain eligible loans and mortgages to approved lenders for financing the construction, reconstruction or reconditioning of commercial fishing vessels; (3) the Fishing Vessel Construction Differential Subsidy Program provides for a construction differential subsidy equal to the difference between the cost of construction of the vessel in the domestic shipyard and the estimated cost of constructing the same vessel in a foreign shipyard, up to 50% of the domestic cost; (4) the program under Section 7 of the Fishermen's Protective Act provides for reimbursement to U.S. fishermen for certain losses resulting from seizures of vessels by foreign nations.

All of these programs are somewhat limited in scope and their effectiveness has been, in large part, a function of their level of funding. None of them can be considered direct subsidies to the fishing industry in the strictest sense of the word.

The Fisheries Loan Fund Program has existed, with a few modifications in its provisions, since August 1956. Terms for loans available under this program are prescribed by the act and regulations effected thereunder. They carry interest charges determined by the federal government in line with prevailing rates on government securities. They have a fixed period of maturity not to exceed 10 years. Penalties for default are provided for in the regulations.

Under existing legislation, this program will be terminated on June 30, 1970. A bill to renew this program has been introduced in Congress.

Under the regulations of the loan program, applications for financial assistance may be considered only when there is evidence that the credit applied for is not otherwise available on reasonable terms from private sources. Private sources of financial assistance are often reluctant to make loans to fishing vessel owners because of high risks as compared to many other businesses. As of March 31, 1969, a total of 2,219 applications requesting \$61.4 million has been received. Of this number, 1,157 applications requesting \$28.0 million have been approved. More than 40% of the amount loaned has been used for refinancing mortgages and maritime liens while nearly 60% has been used for replacing and improving or repairing vessels and gear. Careful servicing of loans under this program has kept losses to a minimum. Only 56 loans have been declared in default during the life of the program and 16 of these have been fully recovered. Total estimated losses have been \$576,000 or about 1% of the value of loans made under the program.

The Fishing Vessel Mortgage and Loan Insurance Program was inaugurated in 1960. Under the provisions of this program, mortgage and loan insurance is available only to those applicants who are able to borrow funds for vessel construction or reconstruction from private lenders. Mortgage insurance premium charges are 1% for mortgages covering over 50% of the cost. Loan insurance premium rates are one-half of 1% per annum on the average amount of the loan outstanding. Mortgages have a maturity date not to exceed 15 years or the economical life of the vessel if less than 15 years. Lesser maturities have been used in cases of smaller vessels. The Mortgage and Loan Insurance Program has enabled a considerable number of vessels to be built with the aid of private financing. As of March 31, 1969, 232 applications for mortgage insurance totaling over \$30.5 million had been received, and 216 applications for \$24.2 million approved. Up to the present time, the Secretary of the Interior has received only two assignments of mortgages which were in default, and those mortgages were subsequently paid in full.

The Fishing Vessel Construction Differential Subsidy Program authorized by P.L. 86-516 in 1960, and amended by P.L. 88-498 in 1964, is inactive at the present time having expired June 30, 1969. Several bills have been introduced in the Congress for the purpose of extending and expanding the act. If such legislation is enacted, subsidy payments will be made again, although under possibly different conditions. I'll have more to say about these "possibly different conditions" a little later, but first let's review the reasons for this act and look at the performance of this program.

The purpose of the Construction Differential Subsidy Act was "... to correct inequities in the cost of construction of U. S. fishing vessels." These inequities stem from a 1793 federal law prohibiting the landing of fish in the U.S. by vessels built in foreign countries. Because U. S. built vessels, on the average, are approximately twice as costly as foreign built vessels, this has imposed a direct burden on our fishing industry. I said on the average because this differential does vary by size and type of vessel. The economic impact of the 1793 law has been to raise the capital cost of the fishing operation, and as a result, the costs of landing fish. For example, it has been estimated that the cost of groundfish is nearly 11% higher because of the existence of the 1793 law, and the costs for tuna and menhaden are nearly 14 and 25% higher,

respectively. The higher costs make it extremely difficult for U.S. fishermen to compete on an international basis. The program is actually a direct subsidy to the U. S. shipbuilding industry and not to fishing vessel operators. As of March 31, 1969, 105 applications for \$30 million have been received and 42 contracts for \$20.6 million executed.

Now I want to come back to the statement that if legislation is enacted to renew the Construction Subsidy Program, the program may be administered under different conditions. In administering the Construction Subsidy Program to date, there have been no provisions for integrating and coordinating the act with other bureau programs and goals for improving the harvesting and utilization of our fishery resources. Priorities for a limited budget for the program have been determined up to the present largely by the postmark, so long as certain eligibility requirements of the act were met. This seems like an equitable way to determine priorities — on a first come, first served basis, because everyone should have an equal chance. But let's consider some other factors for a moment. In recent years, it is becoming more clearly evident that several of our major fisheries are reaching full capacity or indeed in some cases overcapacity. What does that mean? Well, it means that there are enough vessels, gear and fishermen in the fishery to take all the harvestable surplus from the resource and in some cases more than enough. To add more vessels simply would mean dividing a fixed amount of fish among more vessels and fishermen. The result would be a smaller amount of fish per vessel, more idle time, or expressed another way, a shorter fishing season, less revenue and higher costs. In a longer period of time, it may mean overfishing and this makes the situation even worse. Could it be that our financial assistance programs for the purchase of new vessels without requiring the retirement of obsolete capacity where it is needed could contribute to this situation, and in the long-run do more harm than good? This is a possibility and one that needs serious consideration.

If this program is re-enacted, we propose to follow a new approach which would consider this problem in selecting priorities. This new approach would also apply in the administration of the Mortgage Insurance Program. What does this mean and how would this concept be applied? To begin with, we would divide the fisheries into three groups: (1) overcapitalized fisheries, (2) fully capitalized fisheries and (3) undercapitalized fisheries. For the undercapitalized fisheries we would encourage new capacity to enter without restriction. For fully capitalized fisheries we would finance new vessels only if an equal amount of capacity were taken permanently out of the fishery. For the overcapitalized fishery we would require that more than a one-for-one amount of capacity be removed.

I won't dwell on this any longer. I did want to mention it because I think the concept will become more important in all of our financial assistance programs in the future. This will help us to insure that our various programs are not working at cross purposes, and that these programs are used in the long-run interest of our fisheries.

As a final note, I want to address the question of why we don't have more programs of direct financial assistance. This is difficult for some to understand when the industry may have problems which are not necessarily of its own making; for example, resource problems brought about by biological or en-

vironmental conditions, or increased competition from imports as a result of the recent Kennedy round tariff negotiations.

But, when we speak of the commercial fishing industry, we are really speaking of a diverse group of industries which vary greatly in characteristics and thus in their problems and needs. Some are concerned with harvesting, some with processing, some have local interests, others have world wide interests.

It is difficult for BCF to allocate a rather limited budget over these many segments at the various levels in the production and marketing chain and direct them to the problems requiring long-term solutions as well as to the needs for more immediate assistance of a direct nature. Sometimes the short-term programs of direct assistance turn out to be "treatment of symptoms" rather than elimination of the causes of the problem. What was the problem which caused the need for direct financial assistance in the first place? Getting at this problem may be of more lasting significance in the long-run.

In this light the decisions involved in program balance and determination of the types of financial and technical assistance needed are not always easy. In spite of the difficulties and weightiness of the task, you may be assured a review of such programs is being tackled vigorously by department officials. From the Secretary of the Interior through the Assistant Secretary for Fish and Wildlife, Parks, and Marine Resources, and the Commissioner for Fish and Wildlife, programs in the area of commercial fisheries are getting a thorough going over. As we move ahead and decisions are made, you may be assured that the best interests of all segments of the domestic fishing industry are considered.