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Russian Federation

Fishery Products

New Fisheries Policy Being Implemented

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Approved by:

Allan Mustard
American Embassy, Moscow

Prepared by:

Mark Petry and Marina Muran

Report Highlights:

The Russian government published two new resolutions in November 2003, to be effective January 1, 2004, which will replace the current auction mechanism. Resource fees will be based on a new tax system and quota distribution is likely to be done on a historical company use basis. These changes are expected to be the mainstream of a new government policy for the fishery sector for many years. Government officials believe that the new system will bring more transparency and attract investments to the sector.

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New Tax System for Biological Resources

On November 12, 2003, an amendment to Chapter 31 of the Tax Code was signed by the government, by which fishermen and hunters are required to pay fixed rates for withdrawal of specific biological resources (animal or fish). This resolution will enter into force on January 1, 2004.

Beginning January 1, 2004, fishermen are required to pay for all industrial quotas according to the Chapter of the Tax Code called "Fees for the right to use animal and marine resources". This Chapter establishes fixed rates for the right to catch any specific biological resource. These fixed rates will be paid by the fisherman or by a fishing company when they request the license. According to government officials, the advantage of this new tax system is to prevent fishermen paying for their future catch in advance (as under the current system). Under the new system, a ten percent advance payment is required and the rest of the payment will be made in equal portions during the validity of the license. For instance, for one metric ton of pollack from Okhotsk Sea a fisherman will pay RUR 2,000 (US\$70.00), while for one metric ton of Kamchatka crab the fee would be RUR 45,000 (US\$1,500). According to tax analysts, the federal budget could have received 7.15 billion rubles, if such tax system had been introduced in 2003.

The new tax system is likely to replace the current fishing auction system, introduced by the Russian government in December 2000 and implemented in 2001. The fishing auctions, called by the industry a "national catastrophe", had a negative impact on the Russian fishery sector and caused a decline in fish production, unemployment in the industry, and a widespread migration from the Far East's coastal regions.

Initially designed to improve the efficiency of the fishery sector by allowing fishing companies to pre-sell their catches and trade quotas with other companies, the auction system never offered an insurance mechanism to cover the fishermen's risk of not being able to fulfill their catch. Therefore, many fishing companies' catches did not cover what they paid for their quotas. Hundreds of Russian Far East (RFE) fishing companies suffered major losses and some went bankrupt because they purchased quotas based on misleading data for fish they could not catch. For stocks that are not depleted, auctions have encouraged fishermen to "compensate" the cost of the auctioned quotas by catching much more than their quota allows and smuggling a large percentage of the catch without reporting it. In addition, the RFE was forced to rely more on auction quotas in 2003, as government officials reduced "free" quotas by approximately five percent from the previous year.

A statement about abolition of the auctions was initially announced by the White House in mid-summer 2003 and caught the industry by surprise. According to Government officials, "the auctions are an ineffective mechanism that failed to stimulate fair business in the country". On July 2, 2003, a government commission on fishing legislation recommended that the practice of auctioning industrial fishing quotas be ended. Most experts agree that this would solve many of the problems that have seriously hurt industry output and have abetted corruption since quotas were implemented. Quota auctions yielded the government 15 billion rubles (\$495 million) during 2001-2002 and an equal amount in the first five months of 2003. Industry representatives and government officials are now also proposing mechanisms to replace the sale of industrial quotas.

The Quota System

Understanding the quota system in Russia is key to having a clear picture of the problems and opportunities of the Russian fishing industry. Once the government establishes the Total Allowable Catch (TAC) for different species, the State Fisheries Committee

(Goskomrybolovstvo) will distribute quotas that specify the quantity of each species that can be caught. The Committee is supposed to submit a draft of fishing quota distribution to the Kremlin by November 1st each year. At the beginning 2004, the following categories of quotas are separated from the total annual catch: industrial quotas for coastal catch; industrial quotas in exclusive economic zone (EEZ); agreements with foreign countries, scientific research quotas; and quotas to satisfy the needs of small ethnical groups in the Far East, Far North and Siberia.

Prime Minister Kasy'anov also signed Resolution #704 on November 20, 2003 on quota distribution. This document is the first step towards the adoption of a new law on fishing and preservation of bio-resources. Another regulatory document is expected to be adopted by spring 2004, after the presidential elections.

Deputy Prime Minister and Agriculture Minister Aleksey Gordeyev commented on the new resolution by saying that the most important aspect of the new system is the allocation of "quotas" to fishing organizations for five years, which avoids bureaucratic interference in the distribution of bio-resources. Gordeyev called for a bill that would regulate fishing activity in the country, which could set the mainstream of government policy in this sector.

According to the new resolution, quotas applicable to the 200-mile zone (EEZ) will be distributed annually among bidders by an inter-department commission created under Goskomrybolovstvo in compliance with the general annual quotas set by the government. Distribution of quotas among bidders for coastal fishing areas in the 12-mile zone is to be done at tender in the country's constituent regions, factoring in Goskomrybolovstvo observations. Companies will acquire quotas for harvesting in the 200-mile zone for five years, instead of the previous one-year. Five-year quotas for coastal fishing will also be issued. According to German Gref, Minister of Economic Development and Trade, "auctions have enabled us to obtain credit background of those companies who had purchased quotas through the auctions, (which will be used in creating the new system)". The more quotas on a specific kind of fish a company has purchased at the auctions in the last three years, the better chance it has to get the bigger portion of annual catch for the resource. A specialized commission is expected to send the final protocol on the competitive results to Goskomrybolovstvo for a final decision on each company's catch.

The Economic Development and Trade Ministry, Anti-Trust Ministry and Goskomrybolovstvo have been charged with submitting to the government before July 1, 2004, suggestions concerning boosting shipments to Russian territory (instead of directly exporting) of fish and other species on the continental shelf and in Russia's exclusive economic zone. Beginning January 1, 2005, there will be a ban on the industrial use in the oceanic economic zone of vessels belonging to non-residents of Russia operating under international agreements with the country.

Goskomrybolovstvo officials state that each user's share will be determined by using an objective approach. However, most heads of regional fishery committees are not satisfied with the new system because of their loss of power over the distribution of quotas. This is the main reason for their plea to Goskomrybolovstvo and the federal government to return to the two-level quota distribution system, under which the federal government allocates a portion from the total annual catch to the regions for the governors to distribute. In theory, the industrial councils at the regional level were supposed to decide which company receives which quota, but in practice, governors have decided, which caused numerous abuses of authority in fulfilling self-interest rather than impartial allocation.

Governors are also against the new requirement for three-year credit history for fishing companies in order to be considered for quota distribution. They believe that a large share

of quotas has been purchased by illegitimate means, since most fishing companies did not have the financial means to purchase quotas in the auctions. However, according to policy makers, supporting the companies that have gained strength during the auction period is the best way to provide incentive to the fishery sector. Auctions have helped to identify companies that could bring about the necessary resources to revitalize the sector. Others argue that it cements the gains of companies that profited through a corrupt system.

Different Views on the New System

Alexander Rodin, President of All-Russian Association of Fishery Enterprises, Businessmen and Exporters, does not support either system. He calls the current auction distribution system "robbery" for most fishing companies, since they could hardly find means to buy quotas through the auctions. According to Rodin, those companies who failed to buy quotas through the auctions within the last three years will not be able to get their shares to catch under the new system either. Their choices will be limited to either selling their fishing fleet or poaching. Rodin believes that there is no legislative or scientific basis under the new system, and no proper formula for quota distribution. It is not fair to distribute quotas based on three years of credit background of the companies since fishing companies exist longer than that.

On the other hand, Oleg Kozhemyaka, member of the Natural Resources and Environmental Protection Committee of the Federation Council, stated that the introduction of the auction system without a transition period was negative for the fishing industry and welcomed the new quota distribution system to reduce the current chaos and disorganization in the sector. He envisions that the new resolution and the five-year period for distribution of biological resources will likely help the development of the fishing industry by attracting investments to the sector.