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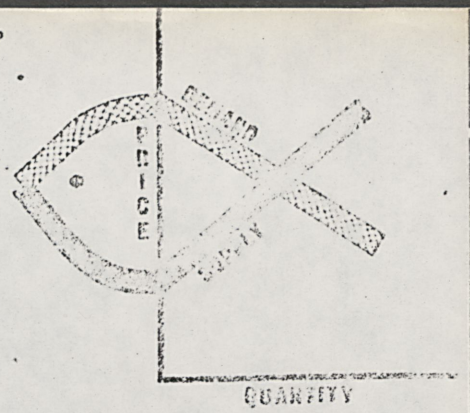

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ESTIMATED ECONOMIC IMPACT ON FISHERMEN DUE TO ELIMINATING THE U.S. IMPORT DUTIES ON FISHING GEAR, NETS AND ELECTRONIC EQUIPMENT

by

John Vondruska

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U.S. NATIONAL MARINE FISHERIES SERVICE
ECONOMIC RESEARCH LABORATORY

This work is in the process of review. All results are highly preliminary and subject to change upon further analysis.

Preliminary report
Not for quotation

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Draft of April 5, 1972

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Introduction and Summary

The purpose of this report is to estimate the economic impact on fishermen due to eliminating the U.S. import duties on fishing gear, nets and electronic equipment.

Import duty removal is estimated to reduce the prices paid by fishermen by about 5-33 percent, at maximum depending on the commodity, for duties ranging from about 5 to 50 percent, ad valorem equivalent.* These estimated maximum domestic price reductions are based on the simplifying assumption that the domestic price is increased by the amount or percentage of the duty, but in fact one would expect the price increase to be less than the duty.

* The term ad valorem equivalent duty rate refers to the effect of compound duties, consisting of a specific duty (per unit of product) and an ad valorem duty (percentage of the value of the product, usually f.o.b. value, excluding insurance and freight to the United States). For example, the duty on synthetic fiber fish nets and netting is a compound duty, consisting of a specific duty of 25 cents per pound, and an ad valorem duty of 32.5 percent, or an ad valorem equivalent rate of about 50 percent in recent years.

The maximum estimated impact of removing the U.S. import duties on fishing gear, nets and electronic equipment would be a 9-14 percent increase in net returns for the average U.S. fishing vessel. This is the equivalent of a reduction in costs of 2-3 percent of gross receipts.

Although mentioning them should not be construed as a recommendation, other government policies could be selected to achieve similar increases in net returns for fishermen. A subsidy to offset the import duties on fishing gear, nets and electronic equipment might require an expenditure of about $12-18 million for all U.S. fishermen, or $9-15 million for vessel operators. These subsidies are 2-3 percent of the total value of fish landed in 1970 by all fishermen ($601.9 million) and by vessel operators (estimated as about 75 percent of the total), respectively. This would require a change in U.S. Government subsidy policies. Other governments provide fishermen with subsidies on the purchase of various items such as fishing gear, nets and electronic equipment.

Present NMFS research activities, possible fishery management programs, new laws, and other activities of government can also have a positive effect on fishermen's earnings.

Recommendations

It is recommended that reduction or elimination of import duties on fishing gear, nets and electronic equipment be considered among the possible partial policy solutions to some of the problems faced by

U.S. fishermen. To be beneficial to all fishermen, the approach would have to be more comprehensive than that contained in a bill recently introduced by Senator Robert Packwood and discussed later in this report. The impact of such tariff reducing legislation has political ramifications that extend beyond the fishing industry, because the relevant tariffs, quotas and other trade restrictions are a form of presumed "protection" to other industries. In the view of many economists, the "national" or "public" interest is unfortunately seldom properly represented in the legislative process that leads to trade restrictions to presumably protect certain industries. However, reducing import duties on fishing gear, nets and electronic equipment would appear to be in the fishermen's interest and in the "public" or "national" interest, assuming that adjustments to freer trade are. "Protected" industries may use various defensive arguments to preserve or increase their degree of protection through trade restrictions. Economists', U.S. Tariff Commission and other investigations often show that "protected" industries or firms have a variety of economic and financial ailments, only a portion of which, if any, can be attributed to imports. Regardless, industries continue to seek trade restrictions which offer no permanent cure for financial distress due to other basic problems. The fishing industry is no exception. Increased trade restrictions would not solve, for example, problems of fishery management.

Imports and Import Duties*

Import Duties

U.S. domestic production, imports and post-Kennedy Round (1972) import duty rates for selected items of interest to U.S. fishermen are shown in Table 1 for 1967 (year of the most recent Census of Manufacturers). All of the items in Table 1, except engines, refrigeration equipment and pumps might be classified under the broad grouping "fishing gear, nets and electronic equipment." Among these items the highest import duty, about 50 percent, applies to fish nets and netting made of synthetic fibers. The duty on synthetic fiber rope and cordage is found to be 31 percent, although the braided rope duty is 21 percent. The duty on electronics gear used by fishing vessels is about 8 percent, as suggested by Table 1 and confirmed by a leading supplier of electronic equipment.

Importance of Imports to Fishermen

With respect to the importance of imports to fishermen, most electronic equipment used by fishing vessels is imported. Since the 1950's synthetic fiber fish netting has displaced vegetable fiber fish netting, and about one-third of the U.S. apparent consumption of fish netting is now imported. Otherwise, information obtained in phone interviews suggests that fishermen generally use U.S. made parts and equipment. This would apply to

*Based largely on information in or gathered for John Vondruska, "The Tariff Situation for Fish Nets and Netting" (unpublished: College Park, Maryland: NMFS Economic Research Laboratory, draft of November 24, 1971). A copy of the earlier report is attached, and tables used in the present report are taken directly from the earlier report.

Table 1.--U.S. Production, Imports and Post-Kennedy Round (1972) Duties on Selected Items Used in Part by Commercial Fishermen 1967[1/]

Item Name	Domestic Production 1967	Imports 1967	TSUSA Rate, 1972	Import Duty 1972[2/] Amount	Import Duty 1972[2/] Rate
	($1,000,000)	($1,000)		($1,000)	(Percentage)
Rope, manilaa	23	1,866	2¢ per lb. + 10%[3/]	276	14.8
Cables and Rope, metal	82	1,946	7.5%	146	7.5
Cordage, man-made[4/]	65	145	12.5¢ per lb. + 15%	45	31.0
Fish Nets and Netting, man-made	[5/]	904	25¢ per lb. + 32.5%	454	50.2
Engines, Piston:	2,188	24,602		1,156	4.7
diesel	681	17,221	5%	861	
other	1,507	7,381	4%	295	
Refrigerators and Equipment	342	21,335	5%	1,067	
Navigation Instruments					
Production, aero and marine	586				
Imports		35,023		2,747	7.8
non-photo, non-rangefinder		2,699	14%	378	
gyroscopic compasses		309	5.5%	17	
other compasses		862	9.5%	82	
ship logs		37	46¢ each + 7%	3	
ship logs parts		50	25%	13	
automatic pilots and parts		364	5.5%	20	
other		4,177	5%	209	

Table 1.--U.S. Production, Imports and Post-Kennedy Round (1972) Duties on Selected Items Used in Part by Commercial Fishermen 1967[1/] (continued)

Item Name	Domestic Production 1967 ($1,000,000)	Imports 1967 ($1,000)	TSUSA Rate, 1972	Import Duty 1972[2/] Amount ($1,000)	Import Duty 1972[2/] Rate (Percentage)
radio apparatus, radar		25,850	7.5%	1,939	
electrical:					
ship logs & depth sounding		347	46¢ each + 7%	4	
parts		328	25%	82	
Pumps	656	13,442	5%	672	5.0
Hoists, Winches	145	11,567	5%	578	5.0

1/ For most items commercial fishermen would use only a fraction of the production and/or imports.

2/ Post-Kennedy Round rate of duty, effective January 1, 1972 applied to 1967 import data.

3/ For 3/16 to 3/4 inch rope; duty on rope over 3/4 inch is 2¢ per pound.

4/ Braided rope enters as TSUSA item 348.05 at 21% ad valorem (January 1, 1972 rate) for all fibers.

5/ Domestic production, 2,371,000 pounds, all fibers; non-cotton fibers, 2,252,000 pounds. Imports, 876,000 pounds, all fibers; synthetic fibers, 640,000 pounds. Author's estimated value of domestic production $ 4 million.

Source: U.S. Bureau of Census, Census of Manufacturers-1967 (Washington, D.C., U.S. GPO, 1971), U.S. Imports for Consumption and General Imports-1967, Report No. FT-246 (Washington, D.C., U.S. GPO, 1968) and U.S. Tariff Commission, Tariff Schedule of the United States Annotated, 1971, TC Publication 344 (Washington, D.C., U.S. GPO, 1970)

fish nets made with foreign fish netting. Incidentally, fish netting imports are used to some extent in many U.S. fisheries, but appear to find greatest use in the salmon gill net fishery and in certain other fisheries requiring light weight or fine mesh netting.

Since 1793 fish cannot be landed in U.S. ports in foreign-made (foreign documented) fishing vessels (fishing craft 5 net tons and over). Thus, foreign made equipment can be used on a U.S. fishing vessel, but the vessel itself must legally qualify for U.S. documentation.

Foreign-Made, Non-Imported Fishing Equipment

Apparently some U.S. fishermen acquire and use foreign-made equipment, while neither importing it, nor paying import duties. Briefly and generally, any such foreign-made equipment: (1) may be acquired incidentally while on a fishing voyage from U.S. ports, (2) must not be landed for entry into U.S. domestic commerce, (3) must be listed in a special record and (4) may be acquired only by a vessel documented (registered, licensed or enrolled) for the U.S. fisheries only.

U.S.-flag fishing vessels in the foreign and coasting trade, or with a permit to touch and trade are not granted this duty-free privilege. Examples of such vessels are U.S.-flag fishing vessels operating out of ports in South America and U.S.-flag fishing vessels leaving their

U.S. ports specifically to engage in foreign trade. (For further details see Vondruska, 1971 draft, pp. 30-35).

Prospects for Duty Reduction

The five-step (5 year) duty reductions under the Kennedy Round were completed as of January 1, 1972. Duties on many items of interest to fishermen were reduced, but not those on synthetic fiber fish netting.

Ironically, duties on the now unimportant cotton and other (non-abaca) vegetable fiber fish nets and netting were reduced under the Kennedy Round. Abaca (manila) nets and netting for use in the otter trawl fishery were duty-free even under the Tariff Act of 1930, sometimes viewed as a hallmark of U.S. protectionism.

Two current developments are of interest with respect to the duty on synthetic fiber fish nets and netting. First, the U.S. Tariff Commission is scheduled to make its recommendations on April 18, 1972 as to whether or not anti-dumping duties should be imposed on certain Japanese exporters of synthetic fiber fish nets and netting in addition to the present duty of about 50 percent. Secondly, Senator Robert Packwood of Oregon has introduced a bill, S. 3291, to eliminate the duty on synthetic fiber fish nets and netting, so long as such items are not produced by U.S. firms (Congressional Record - Senate, March 6, 1972, pp. S3297 - S3298). The impact of either event is as yet uncertain.

Price Impact of Import Duties

For imported goods, a duty usually raises the price to the purchaser, just as any other tax does, but for domestic, directly-competing products, import duties, quotas and other trade restrictions have the effect of increasing the price that may be charged. Here it is assumed that prices of fishing gear, nets and electronic equipment (Table 1) are higher than they would be otherwise by the amount of the import duty, although this assumption oversimplifies; for example:

Item	Import duty (possible price increase above duty-free price)	Assumed maximum Price reduction possible with duty removal
	approximate percentage	
Synthetic fiber fish nets and netting	50	33
Synthetic fiber rope		
conventional	31	24
braided	21	17
Electronics equipment	8	7
Hoists, winches	5	5

Even the highest of these duties would not cause U.S. prices for fishing gear, nets and electronic equipment to be twice the prices in other countries. The duty would have to be 100 percent to double the U.S. price above a foreign price, given the simplifying

assumption that the impact of a duty is to raise the domestic price by an equivalent percentage. Actually the rise in domestic price due to the imposition of a duty is virtually always less than the duty (expressed in percentage or amount).*

Any form of trade restriction can be annoying to product buyers and users to say the least, and it should be examined in terms of its impact on society as a whole. This requires careful and time-consuming analysis which is beyond the scope of this report. Short of this, the following discussion relates to the possible impact of duty removal for fishing gear, nets and electronic equipment.

The Impact of Import Duties on Fishing Vessel Costs and Earnings

Vessel cost and earnings data collected by the NMFS Economic Research Laboratory indicate that costs shown for fishing gear, nets and electronic equipment vary among fisheries and vessel operators for different reasons. Costs for these items may be included in at least three accounting categories: depreciation, repairs and maintenance, and gear and supplies.

*See for example, Charles P. Kindleburger International Economics, 4th edition (Homewood, Illinois: Richard D. Irwin, Inc., 1968), and Mordechai E. Kreinin, International Economics - A Policy Approach (New York: Harcourt Brace Jovanovitch, Inc., 1971).

Only a few vessel operators provide sufficient detail in their vessel cost and earnings statement to show costs specifically for fishing gear, nets and electronic equipment.

Therefore, no precise statement can be made about the importance of fishing gear, nets and electronic equipment in the cost and earnings structure of U.S. fisheries. Furthermore, even if appropriate cost data were available, it would not be possible to show the precise impact of removing import duties on these costs without more knowledge and data on the impact of import duties on the prices paid by fishermen. Thus, the following analysis is, at best, an approximation.

Census cost and earnings data for the U.S. vessel fishing fleet is shown in Appendix Table A. The following data for fishing gear, nets and electronic equipment has been estimated for this cost and returns summary.

Cost items relating to fishing nets, gear and electronic equipment	Portion of gross receipts	
	With duty	Without Duty
	----- percentage- -----	
Fishing nets	5	3
Repairs (portion)	0-5	0-4
Depreciation (portion)	1-2	1-2
	6-12	4-9

Therefore, duty removal on fishing nets, gear and electronic equipment imports is estimated to reduce annual costs for these items from 6-12 percent to 4-9 percent of gross receipt for the 1967 average vessel in the U.S. fishing fleet. In other words, net returns from fishing

could be increased by the amount of 2-3 percent of gross recipts, or from an average of $5,604 to about $6,135-6,400 per vessel, using the 1967 Census data in Appendix Table A. This is a 9-14 percent increase in net returns.

Appendix Table A.--U.S. Total Fishing Vessel Fleet Cost and Earnings Data, 1963 and 1967.

	1963		1967		1967 per operator (10,267)	1967 per vessel (12,218)
	Number		Number		$	$
Census, Number of Vessels[1]	10,666		12,218			
Number of Vessels Utilized	n.a.		11,974			
	$1000	%	$1000	%		
NMFS Value of Catch[2]	377,000		439,600			
Census gross receipts[2]	277,114	100.0	324,584	100.0	31,614	26,566
Census, operating expenses						
fuel and oil	n.a.		25,908	8.0	2,523	2,120
fishing nets (repairs, replacements, additions)	n.a.		16,356	5.0	1,593	1,339
other repair and annual overhaul	n.a.		28,643	8.8	2,790	2,344
rental of electronic gear	n.a.		726	0.2	71	59
insurance (hull, P&I)	n.a.		14,362	4.4	1,399	1,175
depreciation (vessel and gear)	n.a.		21,253	6.6	2,070	1,739
leasing or rental cost for vessel	n.a.		2,417	0.8	235	198
all other	n.a.		40,054	12.3	3,901	3,278
Subtotal, excluding payroll	n.a		149,719	46.1	14,582	12,252
Payroll[3]	99,856	36.0	106,417	32.8	10,365	8,710
Total operating expenses	n.a.		256,136	78.9	24,947	20,962
Net profits, before taxes (gross-op. costs)	n.a.		68,448	21.1	6,667	5,604

1/Census number of vessels differs from the NMFS figures of 11,928 in 1963 and 12,874 in 1967. It is assumed that the difference occurs because Census data omits vessels not primarily engaged in commercial fishing (determined on the basis of gross receipts).

Appendix Table A.--U.S. Total Fishing Vessel Fleet Cost and Earnings Data, 1963 and 1967 (continued).

2/NMFS value of catch includes all vessels and all boats engaged in commercial fishing, while the Census gross receipts figure includes only vessels primarily engaged in commercial fishing (determined on basis of gross receipts). Therefore, it is assumed that all commercial fishing boats and those vessels that not primarily engaged in commercial fishing account for the difference. Census gross receipt figures include value of catch and receipts from other uses of the vessels.

3/Census describes its "payroll" category as follows:

Gross earnings paid to fishermen and shareworkers on commercial fishing vessels. Respondents were told they could follow the definition of payroll used for calculating the Federal withholding tax. Payroll includes all forms of compensation such as salaries, wages, shares commission, dismissal pay, all bonuses, vacation and sick pay, and compensation in kind, prior to such deductions as employees' Social Security contribution, withholding taxes, group insurance, union dues, and savings bonds. Payroll data exclude payments to proprietors and partners.

This is interpreted to mean that payments to proprietors and partners not engaged in on-vessel fishing operations are not included in "payroll," while payments to proprietors and partners who were fishermen on their vessels are included in this figure.

Source: U.S. Bureau of the Census. Census of Commercial Fisheries, 1963. GPO: Washington, D.C. 1966.

U.S. Bureau of the Census. Census of Commercial Fisheries, 1967. GPO: Washington, D.C. 1970.