

Title: **Estimating the Impact of Cost-Reducing and Capacity-Enhancing Fisheries Subsidies Cuts on the Small Island Economy of the Azores**

Authors: Natacha Carvalho, Department of Oceanography and Fisheries, University of Azores (Portugal)

Abstract: A major problem affecting world fisheries today is overcapacity of which overfishing is both a cause and a consequence. Subsidies are now widely perceived as an underlying cause of overcapacity, the negative environmental, social and economic effects of which can be masked by increasing support from the government. Subsidies that reduce the costs of fishing and increase profits for the industry can insulate fishers from economic signals, countering the economic incentive to stop fishing when it is unprofitable. Subsidies can thus be a major impediment to achieving economically productive fisheries, particularly in the absence of effective management systems. It is thus ironic that the dual crisis of overfishing and overcapacity is usually generated by the management system itself. Despite continued effort, fleet overcapacity continues to be the fundamental problem of the European Unions Common Fisheries Policy (CFP). Capacity reduction schemes, such as buy-back programs, have not been very effective since generally only the least efficient vessels are bought up, leaving total fishing capacity largely intact. On the other hand, vessel construction subsidies and modernisation schemes are also particularly damaging, helping to reduce operating costs and further increase the economic incentives underlying overcapacity. Fuel price support is another type of subsidy reducing the operating costs particularly since fuel constitutes a significant component of fishing costs, contributing up to 60 percent in some fisheries. By reducing operating costs and thus enabling an increase in fishing effort, fuel subsidies are contributing to increasing fishing pressure and overexploitation of fish stocks. As a result, fuel subsidies support economically unprofitable practices that undermine future economic benefits. A long-term approach is needed that encompasses more fundamental changes than using more efficient engines that initially reduce fuel consumption but in the long-run worsen the situation by contributing to increasing fishing effort on already overexploited stocks. In this view and on account of the global fisheries crises and highly subsidised fisheries, this study aims at estimating the impact of eliminating cost-reducing and capacity-enhancing fisheries subsidies on the Azorean economy. In particular, this study sets out to measure the impact of such a shock on various macro and micro variables pertaining to the regional economy using a dynamic CGE model based on a SAM for the Azores.