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REPORT TO THE CONGRESS

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Need To Establish Priorities And Criteria For Managing Assistance Programs For U.S. Fishing-Vessel Operators B-177024

National Oceanic and Atmospheric Administration
Department of Commerce

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

FEB. 22, 1973

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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-177024

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To the President of the Senate and the
Speaker of the House of Representatives

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This is our report on the need to establish priorities
and criteria for managing assistance programs for U.S.
fishing-vessel operators, National Oceanic and Atmos-
pheric Administration, Department of Commerce. 68
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We made our review pursuant to the Budget and
Accounting Act, 1921 (31 U.S.C. 53), and the Accounting
and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of this report to the Direc-
tor, Office of Management and Budget; the Secretary of
Commerce; and the Administrator, National Oceanic and
Atmospheric Administration.

A handwritten signature in cursive script, reading "James B. Atchefs".

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

NEED TO ESTABLISH PRIORITIES
AND CRITERIA FOR MANAGING
ASSISTANCE PROGRAMS FOR
U.S. FISHING-VESSEL OPERATIONS
National Oceanic and Atmospheric
Administration, Department of
Commerce B-177024

D I G E S T

WHY THE REVIEW WAS MADE

Segments of the U.S. fishing fleet lag behind competitive foreign fleets in fish detection equipment, vessel design, propulsion systems, fishing gear, and harvesting methods. The U.S. fleet's fish catch has remained generally stable since 1945 even though the number of vessels in the fleet has increased over 50 percent. Meanwhile, the world catch has more than tripled in volume. (See p. 6.)

The National Marine Fisheries Service administers three financial assistance programs to help make the U.S. fishing fleet more efficient and more competitive with other nations. (See pp. 7 and 9.)

The Service had provided about \$86 million as of June 1972 through the Fisheries Loan Fund, Fishing Vessel Construction-Differential Subsidy, and Fishing Vessel Mortgage and Loan Insurance programs. (See pp. 8 and 9.)

The General Accounting Office (GAO) reviewed these programs to determine whether they were being managed so as to attain the national objectives of making the U.S. fishing fleet more efficient and more competitive. (See p. 7.)

FINDINGS AND CONCLUSIONS

These programs have had limited success. The Service has not established priorities and criteria necessary to use program funds in a way that meets national objectives, to the extent practicable, as well as the needs of individual recipients. (See p. 16.)

Loans from the Fisheries Loan Fund were often made to refinance existing mortgages, pay existing debts, and provide operating funds. Although authorized by statute, many of these loans allowed the continued use of inefficient vessels rather than improving vessels and equipment for more efficient and profitable fishing. (See p. 12.)

Because of the way the three programs have been managed, vessels have been maintained in, or added to, segments of the fishing industry (fisheries) which Service officials considered to have excess, but not necessarily efficient, harvesting capacity. (See pp. 12 and 14.)

Although loans may be granted both for upgrading the condition of vessels and equipment and for providing financial assistance, the Fisheries Loan Fund should be operated under criteria which place more emphasis

on increasing the fleet's efficiency by improving the efficiency of individual vessels.

In addition, the Service has not determined formally either the available harvesting capacity in each fishery or the capacity required to catch a species' maximum sustainable yield. The Service's failure to determine this has affected all the financial assistance programs. (See pp. 12 and 16.)

RECOMMENDATIONS TO THE
SECRETARY OF COMMERCE

To the extent legally permissible, the Service should redirect the two active financial assistance programs, particularly the Fisheries Loan Fund, to place more emphasis on improving the efficiency of individual harvesting units. The Service should establish

--priorities for directing program funds in a way that meets national objectives, to the extent practicable, as well as the individual needs of the recipients and

--criteria for evaluating vessel efficiency and for determining whether financial assistance will upgrade and modernize a vessel.

If the Fishing Vessel Construction-Differential Subsidy Program is extended, the Service should establish priorities and procedures to insure that funds are directed toward modernizing segments of the U.S. fishing fleet to enable it to compete effectively with foreign fishing fleets and increase the harvest of underused species. (See p. 19.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The National Oceanic and Atmospheric Administration generally agreed with this report. (See p. 16.)

The Administration agreed that a relatively small proportion of loan funds had been directed solely to modernizing fishing vessels, although improvement of vessels and equipment probably was the principal objective of the Fish and Wildlife Act.

The Administration agreed also that it (1) should establish criteria for determining vessel efficiency and (2) should publish guidelines for determining whether financial assistance will upgrade a vessel. The Administration stated that it intended to immediately make those changes which are currently practicable, to emphasize upgrading and modernizing the fishing fleet.

Other programs are strengthening the Service's capability to estimate the harvestable yield of various types of fish and to determine the harvesting capacities of the various fisheries. A coordinated Federal-State program is developing management systems to control the number of vessels in the fisheries. Some officials believe that implementation of the systems will depend, to a large degree, on new legislation.

MATTERS FOR CONSIDERATION
BY THE CONGRESS

Programs discussed in this report were being administered in a manner that limited progress toward making

the U.S. fishing fleet efficient and competitive--goals often expressed by the Congress. Service officials believe that under present authority it is not clear to what extent improvements in vessels and equip-

ment should be given priority over other purposes of the Fisheries Loan Fund and that the Congress should clarify its position on this matter. (See p. 16.)

CHAPTER 1

FISHING INDUSTRY'S PLIGHT

Some harvesting segments of the commercial fishing industry have been in continual economic difficulty over the past two decades. A basic problem is that many of the major fisheries¹ have excess, but not necessarily efficient, harvesting capacity--that is, more vessels and equipment than are needed to harvest a species' maximum sustainable yield. As a result, many fishing-vessel operators have low, unstable incomes. Because fishing-vessel operators in some fisheries have been unable to afford vessel replacements and because private lenders have been reluctant to provide the necessary financing, fleets in certain important fisheries have deteriorated and numerous vessels in the fleets can no longer be considered as efficient, competitive fishing units.

The National Marine Fisheries Service, Department of Commerce, stated in a report that the three programs established by the Congress to provide financial assistance to fishing-vessel operators treat only the results of excess harvesting capacity (i.e., low, unstable incomes and obsolete, inefficient vessels and equipment) rather than the causes and therefore will not be successful in revitalizing the seriously depressed harvesting segments of the commercial fishing industry. Consequently, the Service is developing programs designed to attack the causes of excess harvesting capacity. A Service official told us that the process of changing fish management policies is complex conceptually, operationally, and politically and that it will be some time before improvements can be implemented.

The Service report stated that there were two underlying causes of excess harvesting capacity. First is the consideration of fish resources as common property which implies a traditionally vested right of anyone to harvest the resources. This, combined with the increasing demands for fish and fish products, has attracted excessive numbers of commercial

¹A fishery is a segment of the commercial fishing industry engaged in the catching of a single species or a group of species of fish or shellfish.

fishing-vessel operators and with them the threat of over-harvesting fish resources.

Second is the split fishery jurisdiction between the Federal Government and the States. The Federal Government, which in 1966 created an exclusive fishing zone to extend 9 miles beyond the Nation's territorial sea, the zero- to 3-mile limit, has no clear authority to regulate or conserve the living marine resources in this zone or beyond. The States presently have the authority, granted to them by the Submerged Lands Act of 1953, to regulate the living marine resources of the territorial sea. Beyond the limits of the territorial sea, the only clear Federal authority to totally regulate and conserve fish resources is to enter into negotiations and agreements with foreign nations.

About 60 percent of the vessels in the U.S. fleet are more than 16 years old, and 27 percent have been in service for more than 26 years. Also advances in fishing technology during the past few years have made many of the vessels economically, if not physically, obsolete.

The Marine Resources Panel of the Commission on Marine Science, Engineering and Resources (see app. I) reported that the U.S. fishing fleet lagged behind competitive foreign fleets in vessel design, fishing gear, fish detection equipment, propulsion systems, and harvesting methods. This lag is made more serious by the fact that U.S. fishermen are in constant competition with foreign fishermen at fishing grounds where U.S. vessels had operated exclusively in the past and for markets in the United States.

Even though the world catch has more than tripled in volume and the number of vessels in the U.S. fleet has increased over 50 percent, the U.S. fleet's fish catch has remained generally stable since 1945. Also from 1945 to 1970 fish utilization in the United States more than doubled. This increasing demand was met by imports which rose over 825 percent since 1945 and which accounted for nearly 60 percent of the total U.S. fish supply in 1970. (See app. II.)

CHAPTER 2

PROGRAMS TO AID THE INDUSTRY

The Congress, recognizing that the harvesting segment of the commercial fishing industry lacked the necessary money to finance new vessels and equipment, established three programs to provide financial assistance to fishing-vessel operators. These programs--the Fisheries Loan Fund, Fishing Vessel Construction-Differential Subsidy, and Fishing Vessel Mortgage and Loan Insurance--are aimed at upgrading the U.S. fishing fleet through the introduction of vessels with modern equipment, offsetting the high cost of vessels and equipment in this country, and providing necessary capital and credit to the harvesting segment of the commercial fishing industry. The Congress has often expressed hope that the assistance thus provided would help make the industry more efficient and more competitive.

We reviewed the programs to determine whether the Service was emphasizing the national objectives of making the U.S. fleet more efficient and competitive.

FISHERIES LOAN FUND

After World War II most banks and lending institutions were either unwilling or unable to risk the long-term financing of fishing vessels and equipment because of the hazardous nature of the fishing industry. Therefore commercial loans ordinarily were restricted to about 3 years.

To ease the industry's credit problem, section 4 of the Fish and Wildlife Act of 1956, as amended (16 U.S.C. 742c), established the Fisheries Loan Fund as a revolving fund for making long-term loans to fishing-vessel operators who were unable to obtain such financing from other sources. The maturity period of these loans is determined according to the circumstances but may not exceed 10 years, except when a loan is for all or part of the cost of constructing a new commercial fishing vessel in which case the period is 14 years. Loans now may be made for financing and refinancing the cost of purchasing, constructing, equipping, maintaining, repairing, and operating new and used commercial fishing vessels and equipment.

The purpose of the Fisheries Loan Fund as stated in the Code of Federal Regulations (50 CFR 250.2) follows.

"The broad objective of the fisheries loan fund created by the Fish and Wildlife Act of 1956, as amended, is to provide financial assistance which will aid the commercial fishing industry to bring about a general upgrading of the condition of both commercial fishing vessels and gear thereby contributing to more efficient and profitable fishing operations." (Underscoring supplied.)

The authorized level of the revolving fund is \$20 million, but only \$13 million has been appropriated. As of June 1972 over 1,200 loans, totaling about \$31 million, had been made from the Fisheries Loan Fund.

Current program authority expires on June 30, 1980.

FISHING VESSEL MORTGAGE AND LOAN INSURANCE

This program, authorized by title XI of the Merchant Marine Act of 1936, as amended (46 U.S.C. 1271-1279), supplements the Fisheries Loan Fund in providing financial assistance to fishing-vessel operators. The program provides for Government guarantees of mortgage loans by private lenders to finance fishing-vessel construction, reconstruction, or reconditioning. Such mortgage loans are made under more reasonable terms than would be possible without the Government guarantees.

Under this program, outstanding balances of insured mortgage loans cannot exceed a total of \$25 million. As of June 1972 the outstanding balances, including commitments, totaled about \$17.5 million. From 1960 through June 1972, privately financed mortgage loans, totaling about \$33.5 million, had been guaranteed.

The Federal Ship Financing Act of 1972, which amended the program, provides, in part, that no commitment to guarantee an obligation shall be made by the Secretary of Commerce unless he finds that the purpose of the financing or refinancing is consistent with the wise use of the fish resources and with the development, advancement, management, conservation, and protection of the fish resources.

FISHING VESSEL CONSTRUCTION-DIFFERENTIAL SUBSIDY

Two laws dating back to 1793, which have the effect of protecting U.S. shipbuilders, are obstacles to building a modern fishing fleet. One law prohibits U.S. fishing-vessel operators from registering foreign-built fishing vessels; the other prohibits landing fish in U.S. ports directly from fishing grounds, unless landed by vessels registered in this country. In combination, these laws effectively require U.S. fishing-vessel operators to use U.S.-built vessels even though they cost nearly twice as much as comparable foreign-built vessels.

To correct inequities in the construction of fishing vessels and to enable the U.S. fishing industry to regain a favorable economic status, the Fishing Vessel Construction-Differential Subsidy Program was established in 1960 (46 U.S.C. 1401). This program, as amended, provided for subsidies to fishing-vessel operators up to 50 percent of the cost of constructing fishing vessels in U.S. shipyards.

Through fiscal year 1972 about \$117 million had been authorized for the subsidy program; however, only \$25 million had been appropriated, the last appropriation was made in 1969, and only \$21.5 million had been provided as subsidies.

Program authority expired on June 30, 1972.

PROGRAM ADMINISTRATION

The National Marine Fisheries Service is responsible for administering the financial assistance programs to foster efficient and judicious use of fish resources. The Service is a major component of the National Oceanic and Atmospheric Administration, which was established in the Department of Commerce on October 3, 1970, by the President's Reorganization Plan No. 4. Elements and programs of Federal organizations having marine science responsibilities, including the financial assistance programs of the Bureau of Commercial Fisheries, Department of the Interior, were transferred to the Administration.

CHAPTER 3

FLEET EFFICIENCY COULD BE INCREASED

BY ESTABLISHING PRIORITIES AND CRITERIA

FOR FINANCIAL ASSISTANCE PROGRAMS

Although the financial assistance programs have provided fishing-vessel operators with financial assistance (\$86 million through June 30, 1972), the Commission on Marine Science, Engineering and Resources stated that the U.S. fishing fleet, except for a few fisheries, continued to be obsolete, inefficient, and noncompetitive.

We believe that the lack of success by the financial assistance programs in overcoming these problems is due, in part, to the absence of priorities and criteria which would provide some rational basis for channeling such assistance to where it would do the most good.

FISHERIES LOAN FUND

The Service processes applications for loans on a first-come-first-served basis. Many of these loans have encouraged the retention of inefficient and noncompetitive vessels--due in part, we believe, to the absence of adequate criteria for screening applications. The near depletion of the Fisheries Loan Fund currently underlines the need for such criteria.

To conserve the revolving fund, the Service in 1969 imposed a limitation of \$40,000 on the amount of a loan. During fiscal year 1970 hearings before the Subcommittee on Fisheries and Wildlife Conservation, House Committee on Merchant Marine and Fisheries, the Subcommittee Chairman expressed concern that this limitation had further impeded the upgrading of the fleet because \$40,000 was not enough for most fishing-vessel operators to purchase new or used efficient vessels. The Chairman also expressed belief that the fleet's competitive position had been hindered by this limitation.

Some of the criteria we think are necessary in screening applications for assistance if the efficiency and competitiveness of the fishing fleet are to be advanced are discussed below.

Vessel characteristics

The Service has not established criteria for determining whether the general characteristics of a vessel--such as age, design, size, hull type, and engine horsepower--make it suitable for efficient fishing. At present, factors used in determining whether a loan application should be approved usually include only the loan applicant's financial condition as shown by his records and the vessel's general condition as shown in a survey report.

Although a number of factors--such as natural fluctuations in fish resources, environmental changes, regulatory actions, foreign competition, and the experience and knowledge of the vessel operator--affect the degree of efficiency of fishing operations, we believe that vessel characteristics are independent factors which can and should be evaluated.

Our examination of 61 recent loans processed through three of the Service's regional offices showed that 27 had been for vessels over 20 years old. Of these 27 loans, 11 had been made to transfer ownership of vessels.

During fiscal year 1970 hearings before the Subcommittee on Fisheries and Wildlife Conservation, the Subcommittee Chairman said that the Fish and Wildlife Act of 1956 was passed on the theory that the loan program was going to make fisheries and fishing vessels more competitive. In those hearings a Service official agreed with the Chairman that transferring ownership of used vessels, particularly old vessels, tended to make the fleet less competitive. The Service official later told us that the transfer of ownership did allow younger men to enter the industry.

Service officials told us that, although a vessel's suitability for efficient operation cannot be determined by age alone, a vessel generally becomes less economical and less efficient as it gets older and, unless extensively modified, tends to become obsolete after 20 years.

Upgrading existing vessels

The Service has not established criteria for determining what constitutes upgrading of existing fishing vessels and equipment. The Code of Federal Regulations states that

the broad objective of the Fisheries Loan Fund is to provide financial assistance which will aid the commercial fishing industry in generally upgrading fishing vessels and equipment.

We noted that about 40 percent of the amount loaned from 1956 appeared to be for purposes other than upgrading. Loans were made for refinancing mortgages to prevent foreclosures, paying lienable debts to save vessels from seizure, and providing operating funds. Of the 61 loans we reviewed, 24 were for purposes mentioned above.

For example, one loan of \$34,240 was made to enable the operator of a 28-year-old vessel to refinance a mortgage (\$12,840), retire lienable debts (\$19,400), and purchase spare engine parts (\$2,000). The regional loan investigator, in his Fishery Investigation Report, stated that the vessel and engine had required extensive maintenance which was expected to continue as the vessel became older.

Excess fishery harvesting capacity

Although the Service has imposed limitations on the use of loan funds for certain segments of one fishery-- Alaska salmon--where it has reported that excess harvesting capacity clearly exists, it has not established adequate criteria and procedures for preventing harvesting capacity from being added to fisheries considered to have excess harvesting capacity. Consequently, the Fisheries Loan Fund, as administered, has resulted in vessels' being operated in many fisheries considered by Service officials to have excess harvesting capacity.

The Service has not formally determined the available harvesting capacity in each fishery or the capacity required to catch a species' maximum sustainable yield. According to Service officials, they did not consider existing information on the status of fish resources to be fully developed and reliable. However, certain factors, such as (1) a high percentage of the fish resources caught each year, (2) an excessive number of fishing vessels leading to declines in the number of fish caught, and (3) an imposition of conservation measures to preserve the resources, indicate that certain fisheries may have excess harvesting capacity and that certain fish resources may be overharvested. Our

examination of 61 loans showed that 37 had been for vessels in fisheries considered by Service officials to have excess harvesting capacity.

One loan, for example, was for refinancing a 27-year-old converted military vessel which was added to one of the fisheries considered to have excess harvesting capacity. The loan investigator who reviewed the application stated in his report that (1) the vessel was of the type that few, if any, good fishermen would be interested in buying or operating, (2) the vessel was expected to require more than ordinary maintenance, (3) the applicant had only limited fishing experience, (4) the applicant's past earnings did not indicate a reasonable assurance of repayment, and (5) the vessel was only marginal as loan collateral even though the owner had invested heavily in it. The region which processed the loan application recommended on two separate occasions that it be declined; however, the application was approved by headquarters.

A Service official told us that, because a vessel operator, to qualify for a loan, must be unable to obtain financing from any other source, it is reasonable to conclude that many vessels would have been retired from service had the loans not been made. By using available funds to keep older vessels in the fleet, particularly in fisheries with excess harvesting capacity, administration of the Fisheries Loan Fund has contributed to the industry's basic problem of more vessels and equipment than are needed to harvest a species' maximum sustainable yield.

The Fish and Wildlife Act of 1956, as amended, requires the Secretary of Commerce to insure, before approving a loan which will result in a vessel being added to a fishery, that additional harvesting capacity will not create an economic hardship for existing operators of efficient vessels.

However, the Secretary generally does not provide this assurance but relies primarily on fishing-vessel operators to raise objections and to submit evidence that an additional vessel will create an economic hardship. Unless objections are raised and evidence is submitted relating to the economic hardship, no hardship is deemed to exist. In a few cases the Service determined, on the basis of its own analysis, that an economic hardship did exist.

FISHING VESSEL MORTGAGE AND LOAN INSURANCE

In April 1969 the Secretary of the Interior stated in the Federal Register that it was not in the national interest to add fishing vessels to a fishery having sufficient or excess harvesting capacity and that mortgage loans for adding new efficient vessels to these fisheries may be guaranteed only if at least equivalent harvesting capacity was removed. At that time the Secretary imposed limitations on the acceptance of mortgage insurance applications for vessels in the Eastern Pacific tropical yellowfin tuna fishery. As of April 1972 this was the only fishery on which limitations to applications for mortgage insurance had been imposed.

The Service has recognized that the harvesting capacity of a fishery should be based on the maximum sustainable yield of the species of fish involved. Because Service officials do not consider existing information on the status of fish resources sufficiently developed and reliable for determining the maximum sustainable yield, adequate criteria and procedures for preventing harvesting capacity from being added to fisheries considered to have excess harvesting capacity has not been developed. Consequently, the Service--except in the case of the yellowfin tuna fishery--continued to guarantee mortgage loans for vessels in fisheries that have excess harvesting capacity.

FISHING VESSEL CONSTRUCTION-DIFFERENTIAL SUBSIDY

This program, established to correct inequities in the construction of fishing vessels and to enable the U.S. fishing industry to regain a favorable economic status, has successfully encouraged new vessel construction. The House Committee on Merchant Marine and Fisheries in its July 1969 report stated that the subsidy law had probably provided more incentive for constructing fishing vessels than any other single factor now affecting the industry. In some instances, however, the program's success in encouraging the construction of new vessels only contributed to the problems of those fisheries already overburdened by excess harvesting capacity.

In 1969 the Commission on Marine Science, Engineering and Resources recommended that, if the subsidy program was continued, priorities be established to insure that funds are directed toward modernizing segments of the U.S. fishing fleet which could then compete effectively with foreign fleets. Also, the Commission's Panel on Industry and Private Investment expressed the view that other funds should be directed to assist fishermen in moving from fisheries with excess harvesting capacities to fisheries with less than full capacities.

Public Law 91-279 was enacted to extend the life of the subsidy program until June 30, 1972. However, the President in a letter to the Secretary of the Interior stated that he simply allowed the authorizations to become effective so they would be available in the event changed circumstances or budgetary priorities justified their use.

Because the program has not been funded since 1969, the Service did not (1) establish priorities for processing subsidy applications even though it recognized that priorities were needed to help achieve the program objective or (2) revise processing procedures to direct funds to fisheries where the funds would have the greatest favorable impact.

CHAPTER 4

CONCLUSIONS, AGENCY COMMENTS, AND RECOMMENDATIONS

The Service, in administering the three financial assistance programs discussed in this report, has not emphasized the national objectives of upgrading the U.S. fishing fleet to make it more efficient and competitive. Many of the loans made from the Fisheries Loan Fund appeared to be for purposes other than upgrading the fishing fleet, and many others were made to allow the retention of inefficient vessels and equipment in the industry. Also all three programs have contributed in the long term to the fleet's inefficiency by financing the maintenance or addition of excess harvesting capacity in some fisheries.

We believe that greater benefits would accrue to the harvesting segment of the U.S. fishing industry if the Service established priorities and criteria for providing financial assistance. Limited program funds could then be effectively directed toward modernizing segments of the U.S. fishing fleets to enable them to compete more effectively with foreign fleets. Service officials told us that perhaps this emphasis should be spelled out by the Congress.

AGENCY COMMENTS AND OUR EVALUATION

The National Oceanic and Atmospheric Administration generally agreed with our report and stated that it would be helpful in reshaping the financial assistance programs. The Administration recognized a need to (1) improve the operational and policy guidelines for the financial assistance programs, (2) improve the published criteria for eligibility of applicants for financial assistance, and (3) change the administration of the financial assistance programs to introduce new vessels and at the same time be consistent with an overall fisheries policy of preventing excess harvesting capacity.

The Administration agreed that a relatively small proportion of loan fund activity had been directed solely to modernizing fishing vessels, although upgrading of vessels and equipment was probably the principal objective of the Fish and Wildlife Act. The Administration stated that it intended to immediately make those changes in the financial

assistance programs which are currently practicable to emphasize upgrading and modernizing the fishing fleet. We believe that these changes will be appropriate if the financial assistance programs emphasize improving the efficiency of individual harvesting units and keeping efficient harvesting units in the fleet.

The Administration agreed that it (1) should establish criteria for evaluating vessel efficiency and (2) should publish guidelines for determining whether financial assistance will upgrade and modernize a vessel. The Service believes, however, that the Congress encouraged loans for changes in vessel ownership. The Administration said that certain actions were being taken to solve the problem of excess harvesting capacity.

The Administration stated that our interpretation of upgrading differed substantially from its interpretation. The Administration interprets upgrading to include (1) construction, purchase, and use of new or improved vessels, equipment, or gear, (2) replacement or elimination of inefficient vessels, (3) improvement in vessel operations through a change in ownership, e.g., a more energetic or knowledgeable owner or operator, (4) modification in fishing strategy by changing fishing areas or entering additional fishing areas, e.g., unused or underused fishing areas, and (5) shifts of fishing location, e.g., where excess harvesting capacity in a fishery may be localized.

We appear to differ not so much on what constitutes upgrading as on the relative emphasis which should be placed on the various items enumerated. We do not, for example, attach as much importance to item 3, "improvement in vessel operations through a change in ownership"--a difficult matter to pin down and administer fairly--as we do to items 1 and 2 which relate to tangible and obvious improvements in vessels and equipment.

All of this demonstrates our basic point that priorities and criteria should be established to determine the relative importance of the needs to be satisfied. The criteria should be used in a way that channels the program funds to meet national objectives, to the extent practicable, as well as the individual needs of the recipients.

The Administration pointed out that we did not give appropriate weight to the effect of foreign competition on the harvesting capacity of the U.S. fleet and suggested that withdrawing marginal vessels from a fishery may be counterproductive, because it may provide an incentive for further encroachment by foreign vessels.

This is a valid consideration, but we believe the Administration would agree that maintaining U.S. vessels which cannot compete with foreign vessels or furnish an adequate return to their owners is undesirable. The objective would seem to be to replace marginal vessels with more modern vessels.

The Administration correctly observed that international agreements may offer the ultimate solution to overharvesting of fish resources.

The Administration stated that, to improve the effectiveness of the financial assistance programs, it had

- made a preliminary analysis and evaluation of the financial assistance programs and developed recommendations for improving program policies,
- imposed limitations on the use of financial assistance programs for adding vessels to some fisheries where excess harvesting capacity was clearly shown to exist,
- established regulations which prohibited the use of the Capital Construction Fund¹ for adding new vessels in fisheries that had excess harvesting capacity,
- budgeted and implemented new program efforts to strengthen the capability for estimating the harvestable yield of the various fish resources and for determining the harvesting capacity of the various fisheries,

¹Extends tax deferment privileges to merchant vessels and to domestically owned commercial fishing vessels in order to facilitate the accumulation of reserves for replacement of old vessels.

- begun evaluating the harvesting capacity in each of the fisheries, which information will be used to implement more stringent regulations regarding the use of the financial assistance programs in fisheries with excess harvesting capacity, and
- established a new Federal-State Fisheries Management Program under which new systems are being developed to control the number of vessels in the fisheries. Service officials believe that implementation of the systems will depend to a large degree on new legislation.

The Administration stated also that, to achieve the objectives enunciated by the Congress, increased Federal and non-Federal funding and additional legislative authority are needed.

RECOMMENDATIONS TO THE SECRETARY OF COMMERCE

We recommend that the Service, to the extent legally permissible, redirect the two active financial assistance programs, particularly the Fisheries Loan Fund, to emphasize increasing the U.S. fleet's efficiency by improving the efficiency of individual harvesting units. The Service should establish

- priorities for directing program funds in a way that meets national objectives, to the extent practicable, as well as the individual needs of the recipients and
- criteria for evaluating vessel efficiency and for determining whether financial assistance will upgrade and modernize a vessel.

If the fishing vessel Construction-Differential Subsidy Program is extended, we recommend that the Service, to the extent legally permissible, establish priorities and procedures to insure that funds are directed toward modernizing segments of the U.S. fishing fleet to enable it to compete effectively with foreign fishing fleets and to increase the harvest of underused species.

CHAPTER 5

SCOPE OF REVIEW

We reviewed the policies, procedures, and practices of the National Marine Fisheries Service in administering three programs which provide financial assistance to fishing-vessel operators. We held discussions with Service personnel in charge of carrying out the programs at the regional level and with officials responsible for overall program administration. In addition, we reviewed selected financial transactions between the Service and fishing-vessel operators and obtained pertinent information concerning the fishing industry from Service officials. Our fieldwork was done at the Service's regional offices in Seattle, Washington, and Gloucester, Massachusetts, and at its headquarters office in the Washington, D.C., area.

DESCRIPTION OF THE COMMISSION ON MARINE SCIENCE,
ENGINEERING AND RESOURCES

The Commission on Marine Science, Engineering and Resources was established by Public Law 89-454, enacted on June 17, 1966. The Commission made an intensive investigation of a broad array of marine problems ranging from the preservation of our coastal shores and estuaries to the more effective use of the vast resources that lie within and below the sea. The recommendations of the Commission were the product of nearly 2 years of study and discussion, and they express the combined judgment of the entire Commission.

The Commission's final report entitled "Our Nation and the Sea" was presented to the President and to the Congress on January 9, 1969. The material for the final report was extracted from eight Panel reports submitted by various members of the Commission.

APPENDIX II

U.S. FISH SUPPLY

<u>Year</u>	<u>U.S. catch</u>	<u>Imports</u>	<u>Imports as a percent of total supply</u>	<u>Number of U.S. vessels</u>
	(billion pounds live weight)			
1945	4.60	0.71	13.4	(a)
1950	4.90	1.65	25.1	11,496
1955	4.81	2.30	32.4	11,796
1960	4.94	3.28	39.9	12,018
1965	4.78	5.76	54.7	12,311
1970	4.88	6.58	57.4	(b)

^aNot readily available. The number of vessels in 1940 was 5,562 and in 1947 was 8,661.

^bNot readily available. The number of vessels in 1968 was 13,037.

PRINCIPAL OFFICIALS OF
THE DEPARTMENTS OF COMMERCE AND THE INTERIOR
HAVING RESPONSIBILITY FOR THE PROGRAMS
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
<u>DEPARTMENT OF COMMERCE</u>		
SECRETARY OF COMMERCE:		
Frederick B. Dent	Jan. 1973	Present
Peter G. Peterson	Feb. 1972	Jan. 1973
Maurice H. Stans	Jan. 1969	Feb. 1972
ADMINISTRATOR, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION (note a):		
Robert M. White (note b)	Oct. 1970	Present
DIRECTOR, NATIONAL MARINE FISHERIES SERVICE (note a):		
Philip M. Roedel	Oct. 1970	Present
<u>DEPARTMENT OF THE INTERIOR</u>		
SECRETARY OF THE INTERIOR:		
Walter J. Hickel	Jan. 1969	Nov. 1970
Stewart L. Udall	Jan. 1961	Jan. 1969
DIRECTOR, BUREAU OF COMMERCIAL FISHERIES (note c):		
Philip M. Roedel	Jan. 1970	Oct. 1970
Harold E. Crowther (note d)	Apr. 1967	Jan. 1970
Donald L. McKernan	Apr. 1957	Nov. 1966

^aThe agency was established effective October 1970 pursuant to Reorganization Plan No. 4. The reorganization consolidated the Environmental Science Services Administration, the Bureau of Commercial Fisheries, and elements and programs of other Federal organizations having marine science responsibilities.

APPENDIX III

^bServed as Acting Administrator from October 1970 to February 1971.

^cPosition abolished effective October 1970.

^dServed as Acting Director from November 1966 to April 1967.

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