



DECISION-MAKING IN THE REFORM OF THE COMMON FISHERIES POLICY

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Barriers to improved performance and
management options

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Aims of this presentation

By far the biggest barrier to improved fisheries performance is the failure to base policy on the wealth of the resource

This presentation aims therefore:

- To clarify fish resource wealth and explain its importance
- To present some preliminary estimates of how much it might represent for UK fish resources
- To suggest how such issues might affect the CFP reform process

Plan of the presentation

1. Fisheries exploitation and management: the central (and unavoidable) role of fish resource wealth
2. Some **initial tentative estimates** of UK fish resource wealth (Study being co-ordinated by IDDRA for DEFRA)
3. Some issues for CFP reform

Part 1

1. Fisheries exploitation and management: the central (and unavoidable) role of fish resource wealth

Fish resources are valuable

- Economics begins with the proposition that fish resources are assets (natural capital) that are capable of generating substantial returns on a sustainable basis
- It is this very value or wealth of fish resources that results in their overexploitation when there is no or poor management
- In analysing the return on the asset, economics distinguishes between profits due to the fishing companies and rents due to the resource
- This distinction may be difficult to grasp - consider an analogy

Analogy of business premises

- To operate a company needs premises
- It has 2 options:
 - it can rent its premises
 - it can own its premises
- Which option is the most profitable?
- Leaving aside fiscal rules that may favour one option or the other, the answer is that company profitability will be independent of whether it rents or owns
- Because in both cases it has to pay for the premises that it needs to use in order to operate

Analogy of business premises

- If it rents, clearly this will add to the company's cost of doing business
- If it owns, it should impute the rental cost of its premises, otherwise it makes its operating activity look artificially profitable
- Because it could rent its premises to someone else if it did not use them itself
- Nonetheless there is clearly a difference between a company that owns its premises and own that rents them
- Where does this difference appear if not in operating profits?

Analogy of business premises

- The answer is that the valuable asset that is the company's premises will appear in its own balance sheet if it owns the premises itself and in someone else's balance sheet if it rents them
- Obviously the company will be worth more if it owns its premises than if it does not, but the difference will be due to the wealth represented by the premises asset and not due to any difference in operating profits
- Such profits will depend on the use to which the premises are put but not on ownership arrangements for the premises. These ownership arrangements will affect wealth

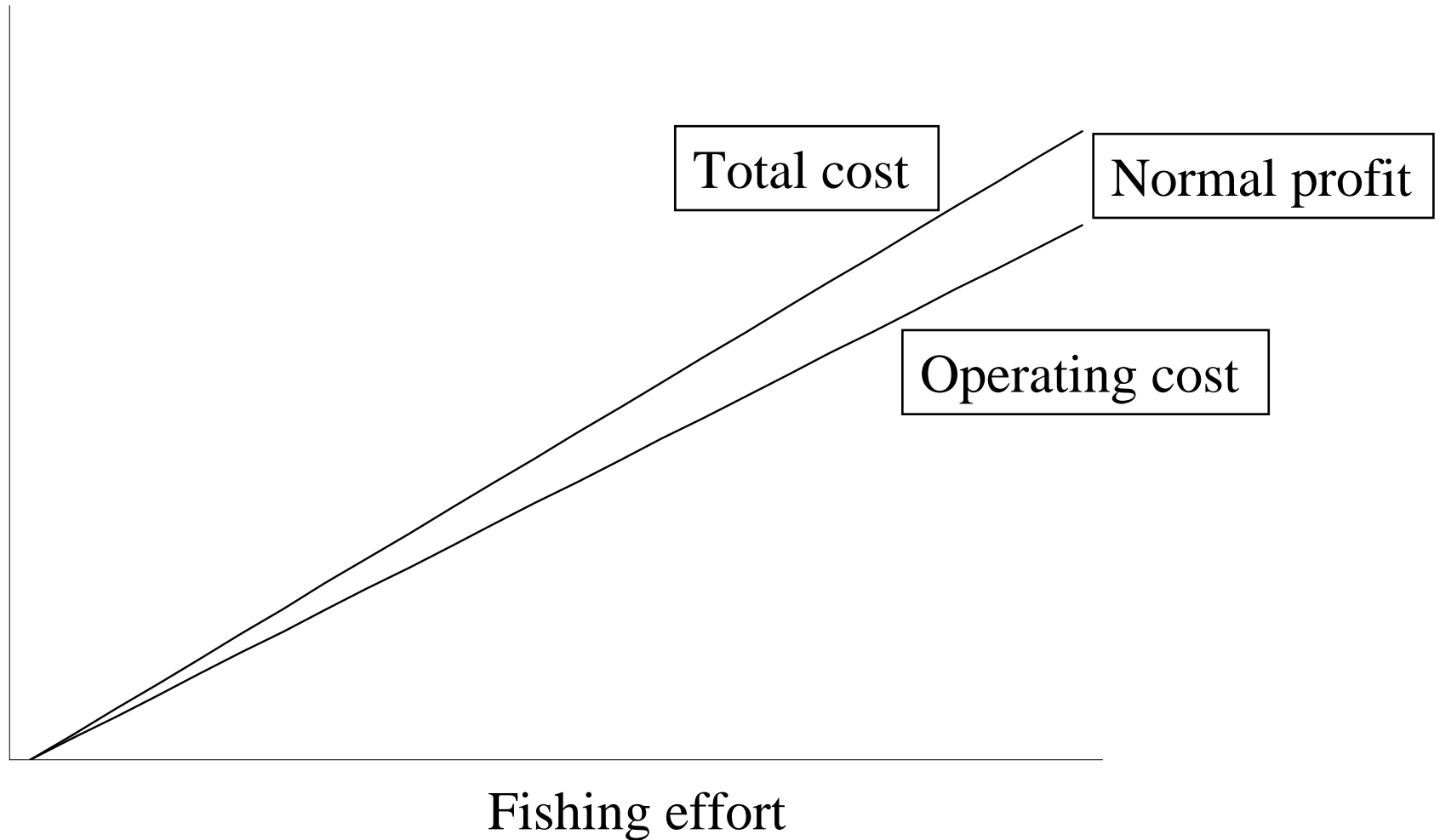
Profits versus wealth in fishing

- This distinction between profits and wealth is crucial for understanding why fish resources are overexploited, why management is required and why successful management necessarily addresses the wealth question
- Instead of premises, the crucial asset in fishing is the fish resource itself
- For simplicity in this presentation, I will use the example of an independent fish resource but none of the fundamental conclusions depend on this simplification

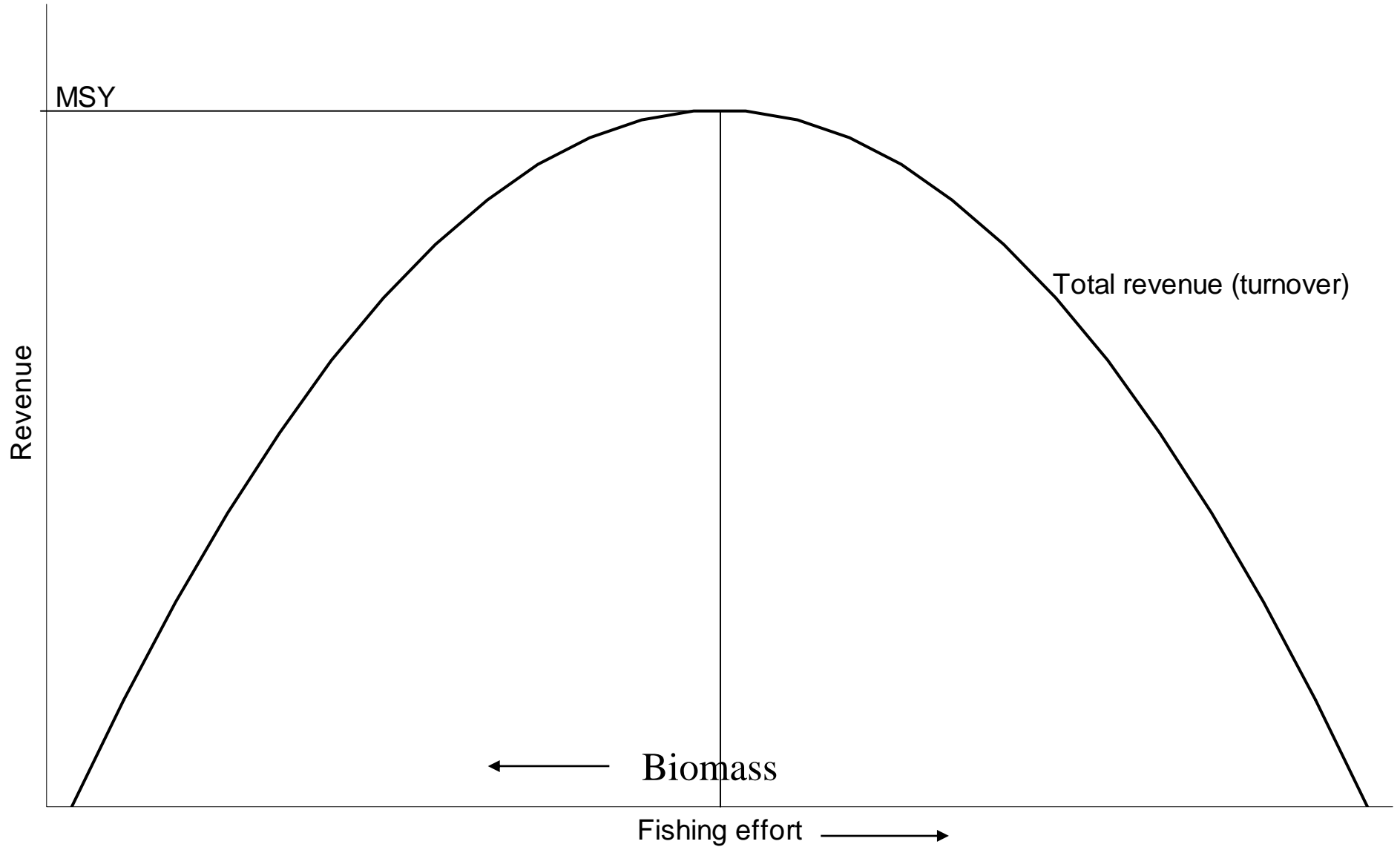
“Normal profits” as a cost

- Economic analysis of profits and costs can be confusing
- Argument that unless fishing firms earn “normal profits” they will not continue operating into the long term. Hence “normal profits” can be considered part of costs.
- How much are “normal profits”? Return considered acceptable given the risks
- If profits exceed “normal” then fishing becomes an attractive investment, if less than “normal” people looking to exit fishing

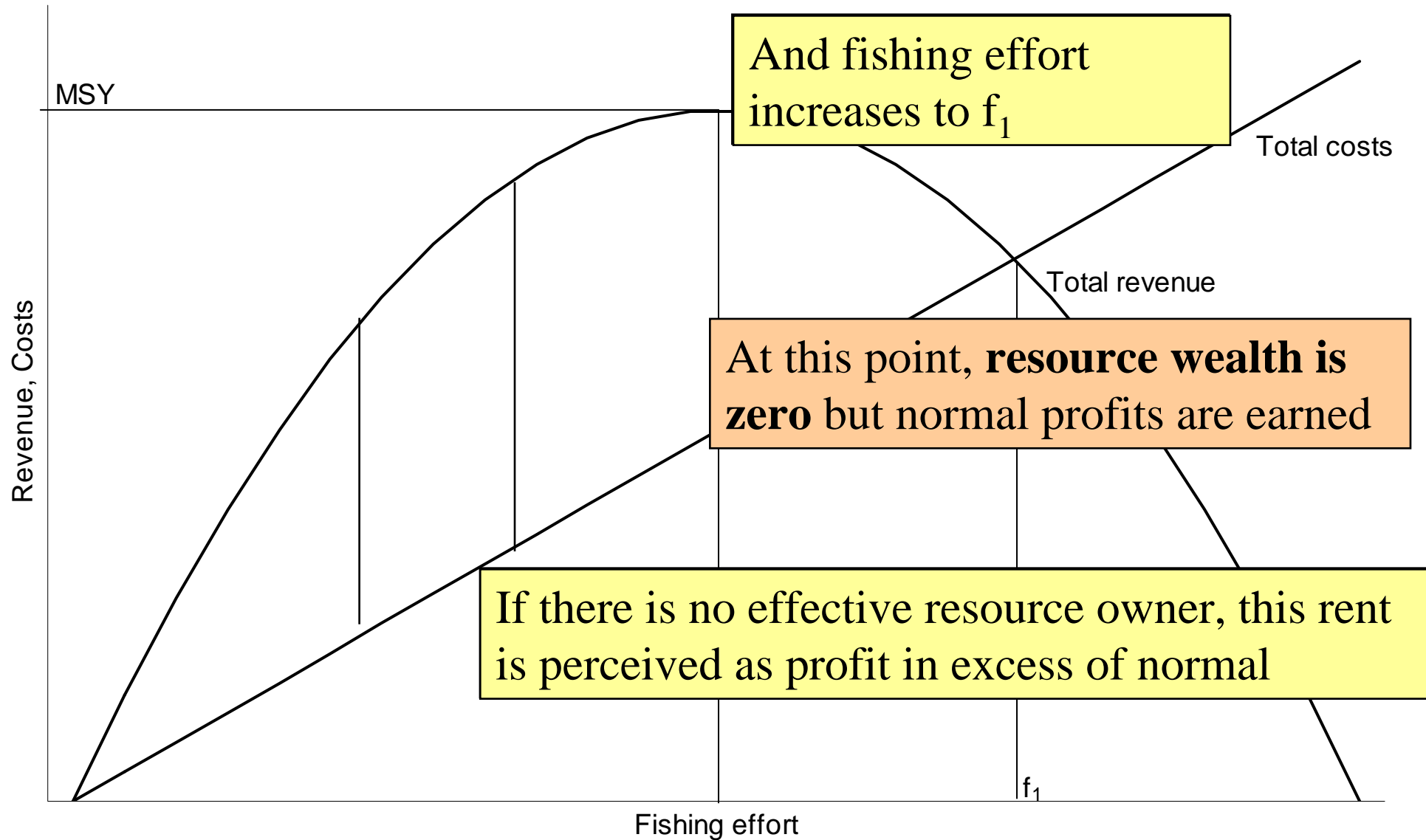
“Normal profits” as a cost



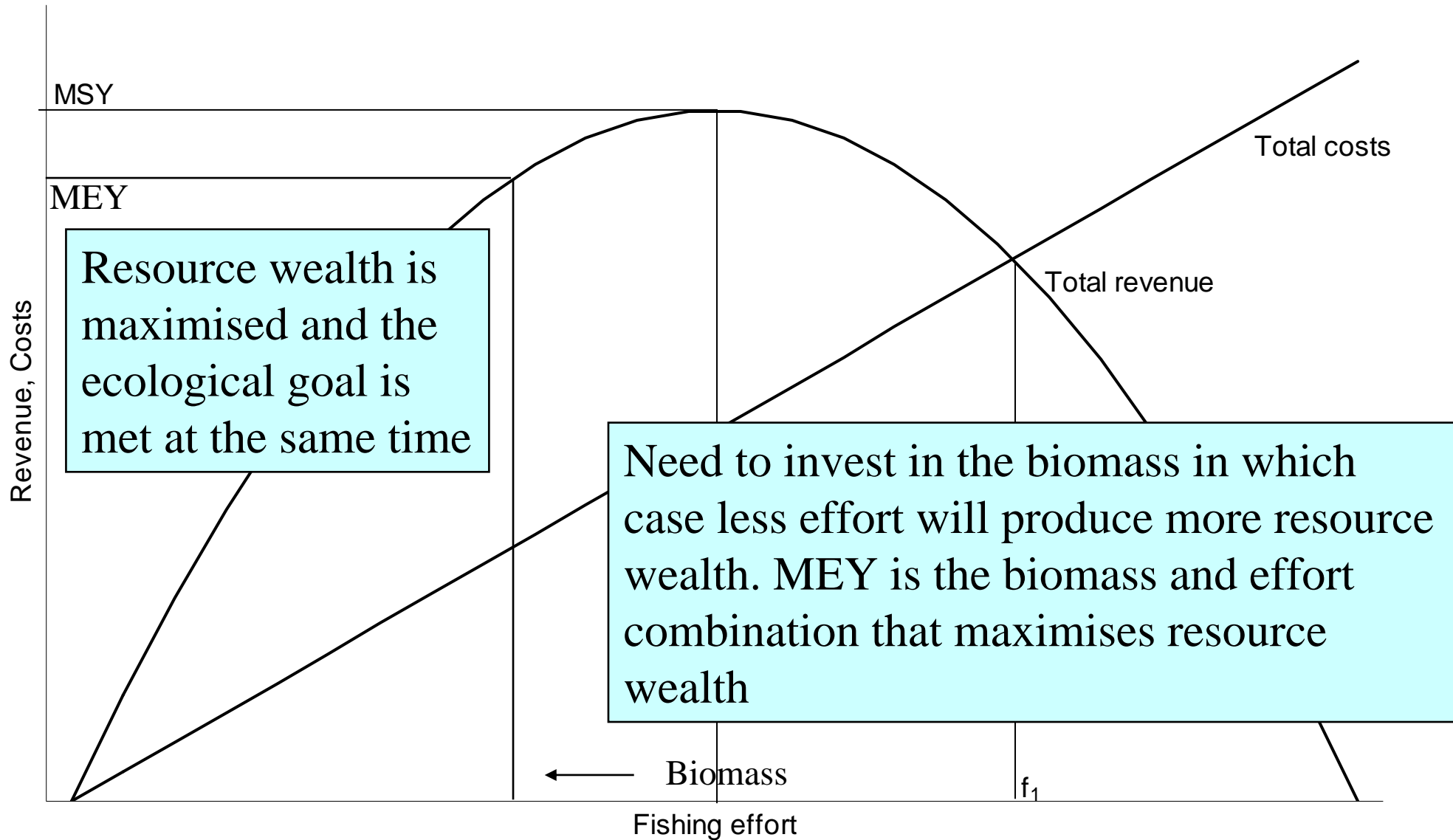
Sustainable production and turnover



Sustainable fish resource rents



Maximum economic yield



Overexploitation

- Overexploitation is an economic phenomenon driven by the resource wealth in form of resource rents at different levels of effort
- At equilibrium fishing industry earns normal profits (part of cost) and not zero profits as is often asserted (term “profits” is used as jargon in economics)
- **But the wealth that the resource is capable of generating is indeed zero**
- Overfishing (beyond MSY?) is a consequence (symptom) of the overexploitation problem
- A focus on overfishing tends to make overexploitation worse

Importance of a wealth focus

- A wealth focus is important first in a negative sense because it is the wealth that drives overexploitation
- But a focus on wealth is also important in a positive sense because this wealth represents the sustainable contribution that the fish resource could make to economic growth and social welfare
- Given the renewable nature of fish resources, this is an annual return

Part 2

2. Some **initial tentative estimates** of UK fish resource wealth (Study being co-ordinated by IDDRA for DEFRA)

How much wealth in UK fish resources?

- Tricky question for lots of reasons
- But first important problem: what are UK fish resources?
- Relative stability? Or some other criterion?
- For an initial estimate to get some idea, use “Landings into the UK and abroad by UK vessels” (MFA 2008)
- Value 2007 = £645 million
- Benchmarks from well-managed fisheries around the world suggest that resource rents are 40-75% of landed value, depending on fishery

How much wealth in UK fish resources?

- World Bank / FAO study “Sunken billions” = 65%
- Assume 60%
- Implies that UK resource rents = £387 million per annum
- But studies also show that in well-managed fisheries, fishers manage to generate substantially more value (sustainably) from the fish resource - about 35% more
- If this benchmark holds true for the UK, then expected UK resource rents would be some £522 million per annum
- This is the annual return on the UK fish asset - what does this mean the asset would be worth?

UK fish resource wealth

- Capitalising returns (opposite process of calculating interest on assets, e.g. a bank account - at least when they used to pay interest....)
- Assume that a reasonable risk-adjusted real interest rate for fish resources is 10%
- Then given the sustainable, renewable nature of fish resources, the value of the fish resource asset would be some £5.2 billion
- “Much is at stake in converting the UK’s fish resources into economically productive as well as physically sustainable resources” (J Wilen)

Warning

- Mentioned in the introduction that these are initial tentative estimates, subject to revision
- Ongoing work is seeking to improve the estimates
- Many issues
 - Use of 2007 landings rather than economically optimal landings (but latter probably greater given scope for some resources to recover)
 - Definition of UK fish resources (what is best definition)
 - Work ongoing to test benchmarks for UK fisheries

Part 3

3. Some issues for CFP reform

Some implications for CFP reform

- Economic theory and empirical evidence from successful fisheries around the world show that a wealth focus is essential
- Major need therefore for a strategic review of the CFP in order to bring an appropriate wealth focus
- Main issue is to clarify economic goals and ecological & other constraints through a policy goal something like:
The objective is to maximise the sustainable wealth generated by the exploitation of fish resources, subject to the constraints imposed by the ecological and social imperatives determined by the Government.

Implementation of strategy

- Strategy needs to be undertaken at appropriate level
- A key challenge is to define ecologically and economically meaningful fishery management units (“fisheries”)
- For many fish resources a regional basis appears likely to be most appropriate
- Where this the case, RACs can play a key role
- Important that regionalisation is taken as an opportunity to do things differently, rather than doing the same things as now at a different scale
- But for some more local levels may be better - e.g. shellfish

Use rights

- Within these FMUs, need to ensure that fishers have secure use rights
- Although increasing recognition that successful fisheries require such use rights, important to note that there are many forms that such rights can take - no “one size fits all”
- But such rights essential because only the private sector can generate the potential fish resource wealth (correct incentives)

Review role of the private sector

- Once fishers have secure use rights in well-defined FMUs, they will have an incentive to maximise the value of their rights and to do so will seek to exploit the fishery at (or near to) the MEY level
- They can be given far more responsibility for the exploitation of the fish resources
- For instance, they could be given responsibility for proposing the TACs for the resources that they exploit
- Of course, this will require that fishers are organised and may have implications for the types of rights systems

Clarifying scientific advice role

- A key scientific role will be to check the ecological consequences of the proposals (against published ecological criteria - limit or reference points)
- The question to scientists should not be “How much can be caught?” but “Is it ecologically acceptable to catch X”?
- Cf. EU request to ICES for advice on multi-annual plans for North-east Atlantic mackerel
- Need also to consider ecosystem impacts - e.g. how might cod recovery affect other fisheries (nephrops?)

Ownership and wealth

- Secure use rights are likely to be an effective way to generate wealth
- But the distribution of this wealth will depend on the way in which they are issued and the conditions under which they can be operated
- Some countries (e.g. NZ) chose to give property or use rights to fishers. In the process there has been a substantial transfer of wealth to rights holders
- For instance, currently NZ fishing rights are estimated to be worth around US\$ 2.7 billion

Ownership and wealth

- Elsewhere Governments have taken clear ownership of national fish resources
- EG Falkland Islands - government leases fishing rights to fishers
- Revenue generated has been as high as £25m per annum (about 18% of Falklands GDP)
- Dependence on squid - short-lived, naturally variable - revenue around £12-15m recently
- Approach often used with foreign fishers - one difficulty - lack of stake in future of resource

Ownership and wealth

- No right answer but good to be aware of the consequences (cf. Iceland)
- A good case can be made that an ideal management system is one that first generates resource rents on a sustainable basis
- And then shares them between stakeholders in a socially and politically acceptable way - this being important for the sustainability of the management system itself

Conclusions

- The key conclusion is that unless this reform of the CFP addresses the wealth issue, it will be no more successful than previous attempts to reform the policy
- But if it does address the issue, then it has the potential to make a substantial difference to the economics of the fishing industry and the contribution that the exploitation of fish resources makes to social and economic welfare

THANK YOU FOR YOUR ATTENTION

