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The Concept of “Economic Efficiency” and its Implications for Policy Formulations

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The views expressed are personal and do not necessarily represent the position of  
the Organisation.

The purpose of this contribution is to question the concept of “economic efficiency” and its role in the development of policy as it relates to the catching sector of the fishing industry. Implicit in the question is what the concept actually means, and whether the commonly assumed definition is relevant or suitable.

In practice, because it is usually invoked in specific circumstances, the concept tends to be accepted and understood as the manner in which a particular project or enterprise can be most efficiently carried out from the subjective view of the promoters of that project or exercise. Effectively it is measured as the rate of return to the principals or shareholders involved.

But is this a satisfactory definition of the concept in the wider sense? Is the rate of return to the individual, regardless of the size or nature of the investment, the correct basis for formulating policy? Is it in the national interest? Have other elements been considered for inclusion? Has the issue been researched and, if so, what are the findings? Have these findings been incorporated in policy? In fact, is there an objective, comprehensive and integrated policy?

I believe it is important that the issue be debated as the concept can be invoked to justify – or not, as the case may be – practically any course of action or policy position.

Obviously, the position of the individual is important as, apart from other considerations he/she enjoys considerable rights under the Irish Constitution (as does property). Notwithstanding those rights it may well be asked whether other considerations might apply when the concept is viewed from other perspectives or levels. What if different criteria are introduced? For example, the issue could also be considered from the sectoral, regional, national, or EU

aspect – any one of which could produce different results requiring different approaches.

As a general statement it appears that there is no clearly stated definition of the concept in any Member State. Rather, informal policy appears to have been given free rein to develop its own guidelines, and the result has been, in Ireland at least, a free hand for market forces to dictate policy. Naturally this has tended to concentrate investment and capacity into fewer and bigger enterprises. It might be said that the same tendency exists in other industries, and this is correct, but the underlying characteristics are not the same.

As such concentration results in a reduction in the level of participation and diversity in the sector it cannot be considered beneficial from the long-term perspective. Furthermore, it is happening against a background of EU structural and cohesion policies aimed at promoting and developing the socio-economic well being of the regions, especially the peripheral regions.

Clearly, an inconsistency is evident which, sooner rather than later, will need to be addressed, as the apparent incompatibility between the two situations will become more pronounced. Any reduction in either the level of participation or diversity will result in considerable and negative consequences for all parts of the coast.

Analysis and discussion on the issue may not be easy as, to some extent, the factors involved can be subjective and it may prove difficult to achieve a consensus. Fundamental factors are involved in the equation, such as structural and cohesion policy objectives; the Common Fisheries Policy – its restrictions and the extent by which it will be amended; Constitutional rights; the extent to which the administrative bodies (Regional/State/EU) can become involved; the position of the individual good *vis-à-vis* the common good; market and financial considerations; etc.

On the other hand, we have already created, perhaps unwittingly and for

different reasons, a number of selective and discrete activities. Various restrictions have been written into fishing licences indicating what type of activity they may or may not engage in. For example, there are restricted licences for bi-valve activities, for certain pelagic activities, and for salmon. Even more to the point we have had, for some time, periodic vessel quotas on stocks where the Irish quota is low. Unfortunately, because of the 'relative stability' formula, most Irish quotas are low and, consequently, quite a few stocks are affected.

In essence, the question is how to reconcile the impetus towards 'big business' with more widespread and more long-term socio-economic interests, especially in areas that have few or no alternative indigenous resources. Even in areas where economic alternatives may exist the same consideration holds good.

The issue, as I see it, centres on what might be termed "organic" *versus* "induced" employment. It is not easy to see how coastal areas can function if control and use of a local resource is concentrated into a few hands, and the "organic" employment opportunities that the resource could offer are correspondingly reduced. Experience has shown that it is very difficult, and extremely expensive, to remedy this situation by attempting to create "induced" employment through manufacturing processes or other such activities. These almost always have to be accompanied by substantial financial incentives and are liable to cease as soon as the support stops or market/labour forces dictate, leaving a trail of social and economic destruction and depression in their wake.

In this regard decisions, perhaps difficult decisions, will be required to formulate a policy which is informed, unambiguous, precise, durable and suited to the needs of the community.

In the Irish context we are quite a long distance from that position. Up to now there has been little evidence of political or administrative willingness to address the issue. In fact the only enunciation, that can be recalled, of official

Irish policy on the subject was made several years ago. This decreed that fewer vessels are required to catch our quota and that the remaining vessels are surplus to requirements and therefore not economically efficient.

Evidently, this unilaterally devised policy is still alive and well, and it fits in neatly with the individual-unit basis of prevailing economic theory. But is it what is required from the wider point of view? Little or no consideration seems to have been given to the wider regional, national or long term implications - and if they have been considered, the detail has not been made public.

In reality, given that fishery resources are finite and mostly governed by quota, continuation of the current trend of rationalisation will obviously involve a continuous shedding of participants. Indeed, the logical end result of concentration of capacity will be a tendency towards oligopoly (for the fortunate few) – a trend already very evident in other Member States.

Whether this is good or bad, and to what extent, in the Irish context is a matter of opinion but it should not continue to go unremarked and undebated and unanalysed.

Lack of analysis and discussion on how the resource should be best exploited for the long-term, and for whom, has been a singularly notable feature of the sector - notwithstanding the oft-expressed but vague intent to 'exploit indigenous resources' and to assist 'peripheral areas.'

The lack of clarity and consistency involved is not confined to our national administration. A serious incompatibility is evident in EU policies whereby mainstream structural and cohesion policy is aimed at protecting and developing the socio-economic conditions in the peripheral regions through exploitation of local, indigenous resources. Yet, a different and minor policy - the Common Fisheries Policy - denies local populations adequate access to these same resources. This situation is compounded by a belief in the

Commission that fewer catching units are desirable, on the grounds of single-unit economic efficiency.

Maybe, in the end, the present half-baked *laissez faire* approach may turn out to be the best way forward; but it does seem illogical - not to say, careless and unprofessional – to assume that a combination of confusion and vagueness is a better basis for policy formulation than knowledge and transparency. This is all the more remarkable in the light of the need (indeed the obligation) on the administration to draw up an Operational Programme for the industry. The first OP is drawing to a close and work on the outline of the next Programme is already underway. There is no evidence to suggest that any fundamental change in approach or outlook will emerge and the likelihood is that we will continue largely as before in this regard.

Why the lack of interest in the subject? Is it accidental (through lack of awareness, perhaps), or is it deliberate? I do not believe it is accidental as the issue has been around for too long in one form or another and it would have been impossible for policy makers not to have some indication of its importance. After all, the 'national interest' has been a very frequently invoked concern over a very long period on numerous issues, not least on matters relating to fishing.

Rather, I believe the lack of interest has been deliberate and the reasons for this lie both with those in the political and administrative spheres. Both have a vested interest – although they will flatly deny it - in ensuring continuance of imprecision and lack of transparency. Transparency and precision are anathema to both parties, as it would mean that decisions taken on projects, whether general or specific, would have to be justified on a clear-cut and objective basis. Clearly this would greatly reduce their 'flexibility' to make decisions which - for whatever reasons – would be made in favour of one applicant (or constituent) over another and, consequently, such discipline and accountability would not hold much appeal.

In this type of situation, where there is lack of knowledge of the possible

options and their comparative objective value *versus* political/institutional pressure to make decisions that require the *appearance* of objective worth, the currently accepted non-definition of 'economic efficiency' fits the bill.

In the EU context the reasons for lack of clarification of the concept appear to be different. Whilst the Community is obliged to lay stress on socio-economic issues *realpolitik* dictates that it defends the commercial interests of its bigger constituents, both within and outside the fishing sector.

The EU is caught between balancing the interests of those States that have substantial fleets of large vessels - and whose main concern is to retain as much freedom and access as possible - against the interests of other States that have large coastlines, a large fleet of smaller vessels and also a high level of geographic and resource disadvantage. Rationalisation of capacity may well be an option that suits the former, but not the latter. The issue is further complicated by overall political agreements involving a wide range of commodities and sectors, which can have indirect implications for fisheries. Consequently, the EU tends to be reluctant to generate any information or detail or initiate discussions that might result in awkward political debate or alteration of the *status quo*. Instead, it tends to take the course that will create least political difficulty.

A good example of this is the tuna drift net ban, which was introduced (without scientific justification) in response to a strident campaign mounted by one group of lobbyists whose interest was purely local. They laid particular heavy emphasis on socio-economic arguments and complained bitterly about the catching efficiency of other (foreign) vessels and the effects such vessels would have on tuna stocks, as they demanded that employment in their coastal regions be protected. Interestingly, these same lobbyists see no contradiction in being equally strident in pursuit of free access to the resources off the coasts of other States, regardless of the local impact - on the grounds that 'economic efficiency' should be the guiding standard!

Clearly, a concept which allows for such contradictions in interpretation, and

which would be met with approval by the Mad Hatter ("A word means what I intend it to mean"), is not a satisfactory basis for policy formulation.

How can it be efficient for a vessel to sail hundreds of kilometres to catch fish that can easily be taken, at a much lower cost and in better condition, by local vessels? In fact, it does not make sense, especially when the inevitable result would be a loss of employment in the adjacent region. It makes even less sense that the Commission continues to promote such access, as this would result in a continuing threat to such populations and would offer them no hope of development if the current quota share-out remains unchanged.

Indeed the Commission has implicitly accepted this to be the case through the introduction of various schemes, such as PESCA, to try to alleviate the problem of unemployment in coastal areas arising from reduction in vessel numbers. Such schemes are fine as far as they go, but they do not compensate communities for the losses incurred or the employment opportunities foregone. Nor do they compensate for the social breakdown involved (increase in crime, depression, drugs, etc.) or the cost to local, regional and national services in trying to deal with the ensuing problems. These problems and costs will escalate as the more active, enterprising and - almost certainly - younger people migrate or emigrate, leaving a progressively older population behind.

There are, I submit, reasonable grounds for suggesting that the concept of 'economic efficiency' is overly simplistic, narrowly interpreted, and consequently misguided and counter-productive. The concept needs to be clearly interpreted and defined so that:

- (1) it has a clear and unambiguous meaning, and
- (2) wider socio-economic requirements are adequately taken into account.

I rest my case.



