

Institute of Food and Resource Economics



# A welfare perspective on the Common Market Organisation (CMO) revision

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*EAFE discussion forum on CMO reform*

European Parliament,  
Brussels, 6 December 2011

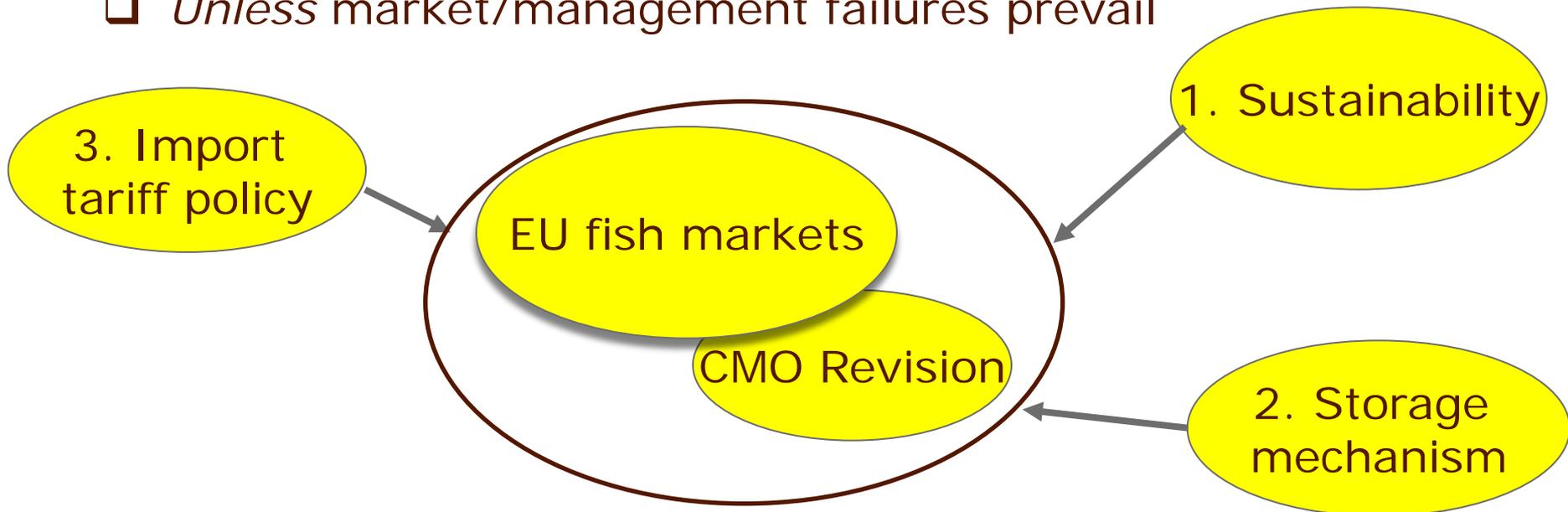
Slide 1



# How do we maximize welfare at EU fish markets?

Point of departure: *The invisible hand* (Adam Smith)

- ❑ The free market forces maximize welfare
- ❑ *Unless* market/management failures prevail



# 1. Sustainability

- ❑ Avoid *“too many fishermen fish too few fish”*
  - ❑ Management needed
    - CFP reform induces new instruments
      - ❖ MSY ~ to optimize catches
      - ❖ Tradable Fishing Concessions (=TFC) ~ to balance fleet-catches
- } welfare improving
- Improper management ➡ race for fish ➡ fishermen compete for quotas and do not consider prices, leading to
    - ❖ Lower quality
    - ❖ Lower prices
    - ❖ Higher costs
    - ❖ Low competitiveness ➡ welfare not maximized



- If TFCs implemented ➡ CMO only of minor relevance, due to
  - ❖ Fishermen can catch when prices are high
  - ❖ Fishermen have time to proper handling ➡ higher quality
  - ❖ Prices higher ➡ CMO less demanded
  - ❖ Welfare potentially maximized



## 2. Storage mechanism

- ❑ Withdrawal mechanism replaced by possible extended use of storage mechanism
- ❑ Use of excellent fish for animal feed avoided
- ❑ Purpose
  - To ensure fishermen minimum prices = income stability
  - If price support desired – to subsidize fishermen
- ❑ Does the proposed mechanism maximize welfare?
  - If based on price support:
    - ❖ Fishermen income raised with support in the short run
    - ❖ Long run catch level likely reduced  not welfare max



- If industry funded:
  - ❖ Sell stored fish at higher future prices
  - ❖ Fish durable frozen up to 2 years
  - ❖ Success claim
    - That prices rise
    - If prices do not rise within durability, stored fish wasted
    - If prices rise, mechanism stabilize prices
    - We need to store fish only when we know prices rise
    - Claims prediction of future prices – can we?
    - Prices depend on

Global supply

Global demand

Exchange rates

Market structure

- Prediction not possible!
- ❖ Marketing time postpone a problem
- ❖ Fish mountains might result

Storage mechanism not likely to maximize welfare



### 3. EU import tariffs on fish

- ❑ CMO draft removes tariff quotas/suspensions to other regulations
- ❑ EU tariff protection
  - MFN average – 12.1%
  - Import-weighted – 4.2%; tariff escalation
  - MFN rates negotiated in WTO
- ❑ Structure of the EU tariff scheme
  - EU imports more than 350 fish products (tariff lines) use 52 tariff quotas, preferences for 180 countries, 70 tariffs suspended
  - The EU tariff policy: Complex, confusing and differentiated – reveal 27 countries and old colony policy
  - Companies cannot make decisions knowing tariffs

} Low protection

#### A need for simplification of EU fish tariff regime

- Best: Full liberalisation benefit consumers and max welfare
- Second best: unilaterally introduce a 2% limit (applied rates <2% suspended)



# Conclusion

- ❑ A welfare maximisation perspective claims CMO cancellation
- ❑ If allocation considerations needed  
➔ decouple subsidies from production
- ❑ Introducing TFCs in the CFP revision will remove subsidy need

The CMO regulation

