

Ragnar Arnason

Fisheries management services in Iceland:
Costs and arrangements

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Background

- Iceland: Major fishing nation
 - 1.5 m. mt annually (landed value \approx 1.5 B. US\$)
 - 95% exported (export value \approx 2.5 B. US\$)
- Early adopter of ITQs (1976, 1984, 1990)
- Study of fisheries management costs
 - With R. Hannesson & W. Schrank (1998-2001)
 - Iceland, Newfoundland, Norway
 - IIFET 2000, MRE 2001, “The Costs of FM” 2003
- Here: Updates for Iceland (same methodology) + cost recovery (charges on the fishery)

Fisheries management services (Public expenditure accounts)

1. Ministry of fisheries: Ministry, Fisheries Directorate, Marine Research, Fish Quality Institute (35%)
2. Ministry of interior: Coast guard (22%)
3. Education: Nautical schools, fish processing and marketing schools, engineering schools (5%)
4. Ports, lighthouses, shipping registry etc. (28%)
5. Meteorological office (8%)
6. Foreign affairs: International fisheries agreements, law of the sea, ocean conventions, RFMOs (2%)

Most significant (3/5 of total)

Services

Fraction
(of costs)

Fisheries Directorate:

100%

Marine Research Institute:

100%

Ministry of Fisheries:

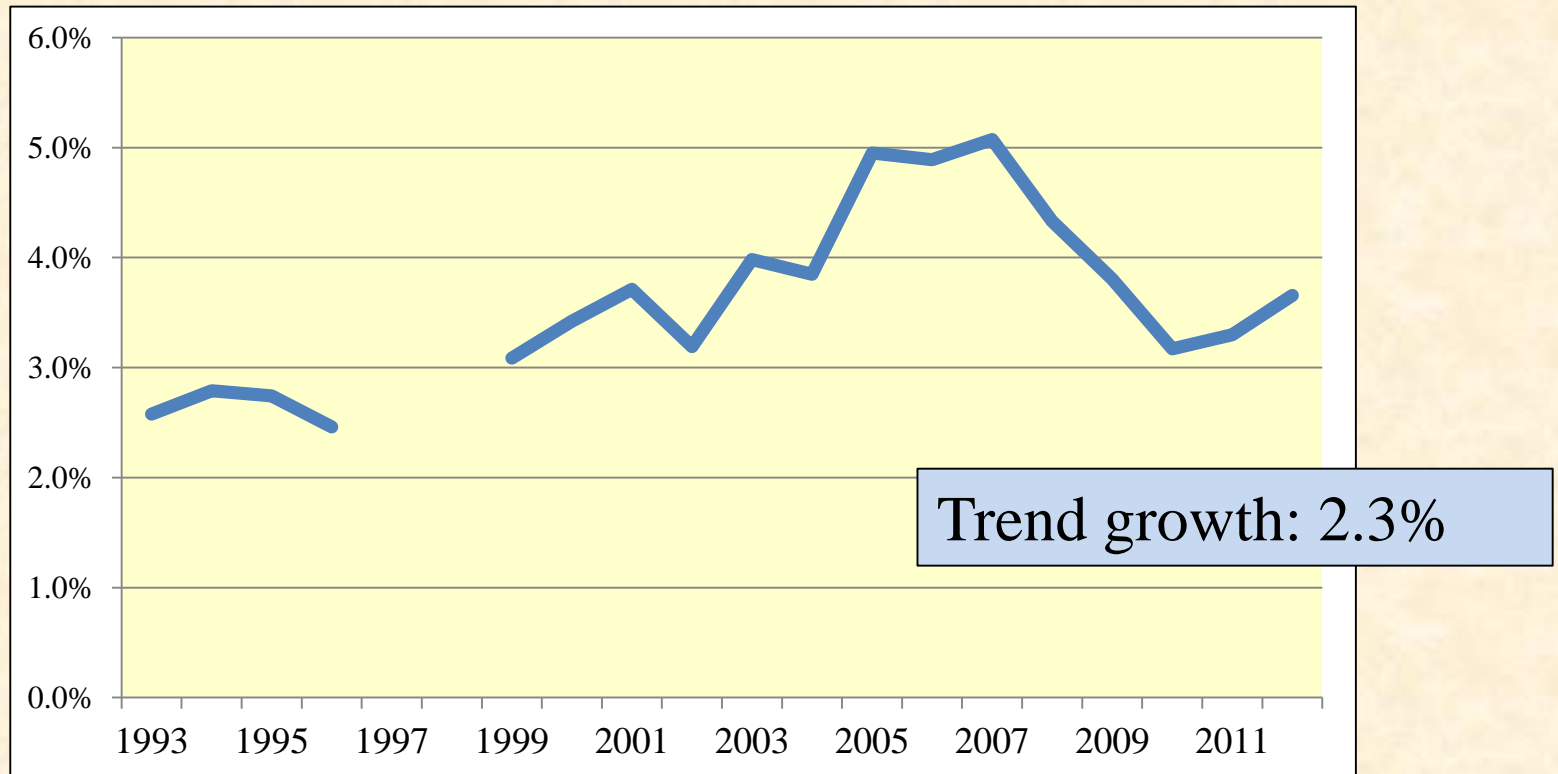
75%

Coast Guard:

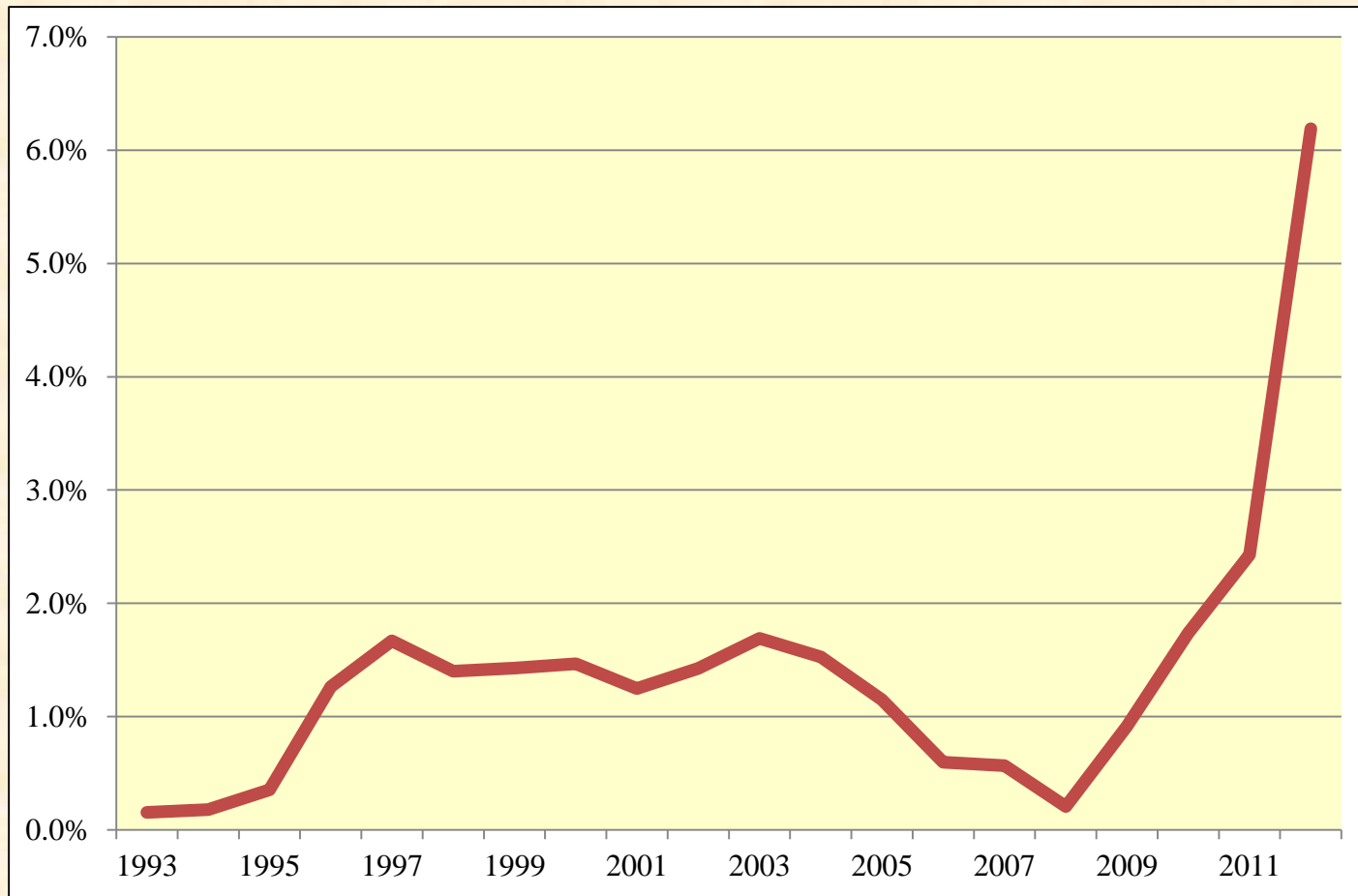
75%

Omit: (1) Education, (2) Ports and lighthouses, (3)
Meterological office and (4) Foreign affairs

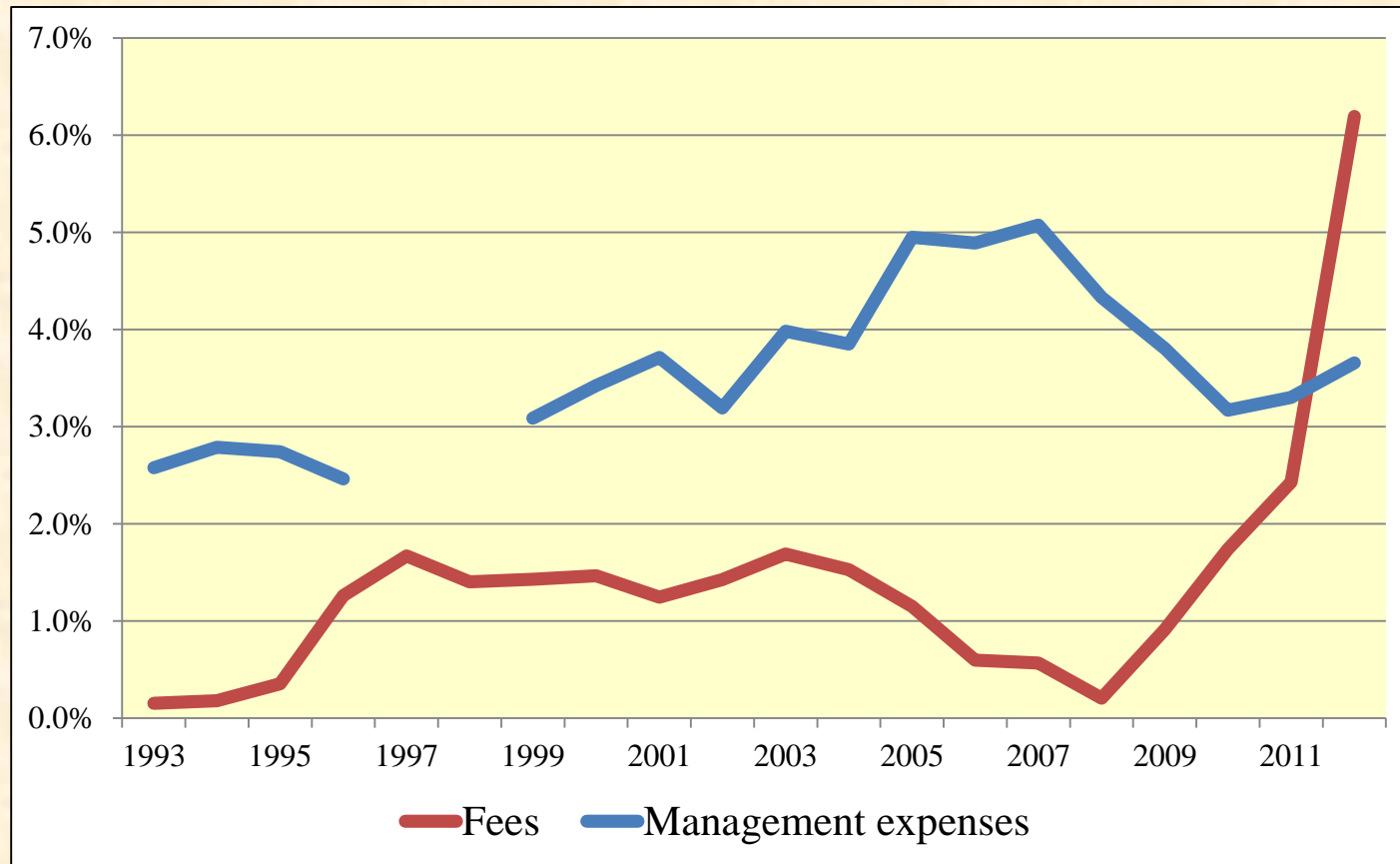
Cost of services (Fraction of landed value)



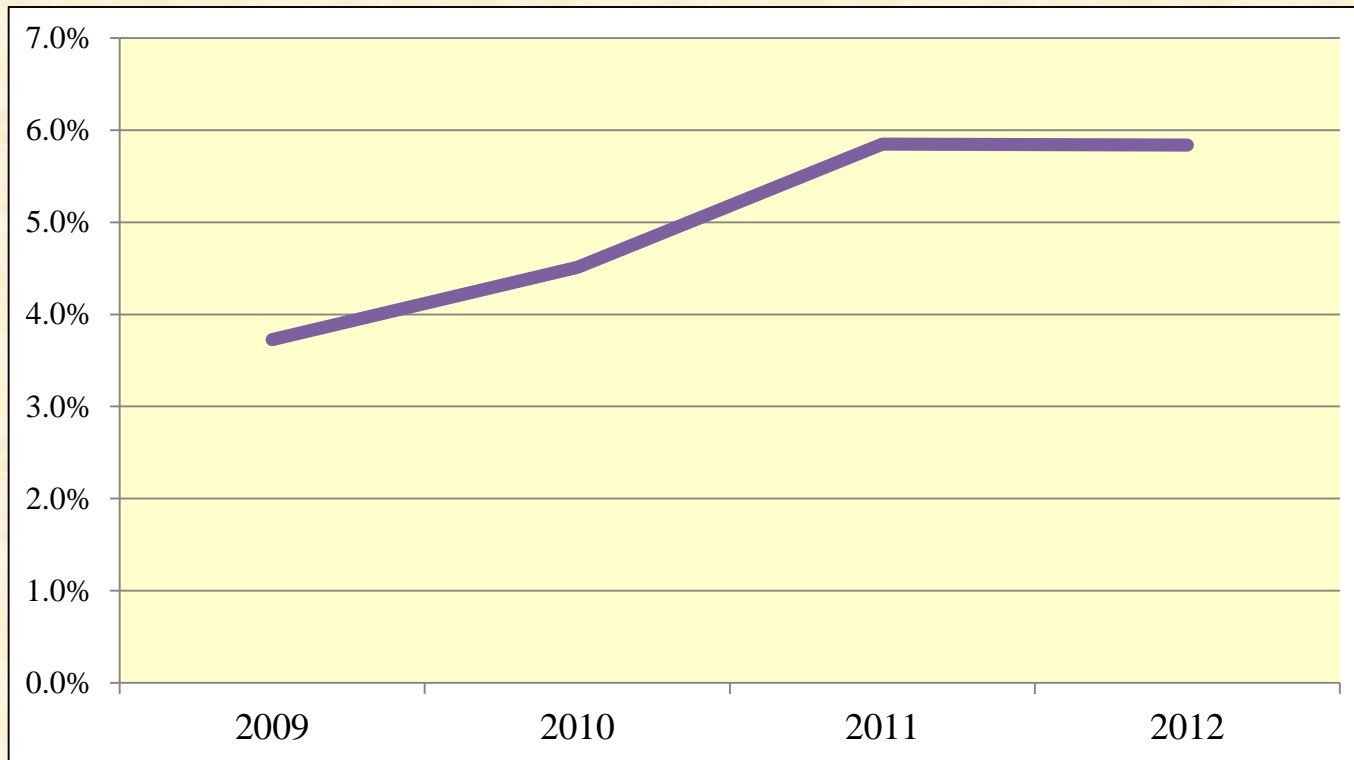
Fishing industry payments (Fraction of landed value)



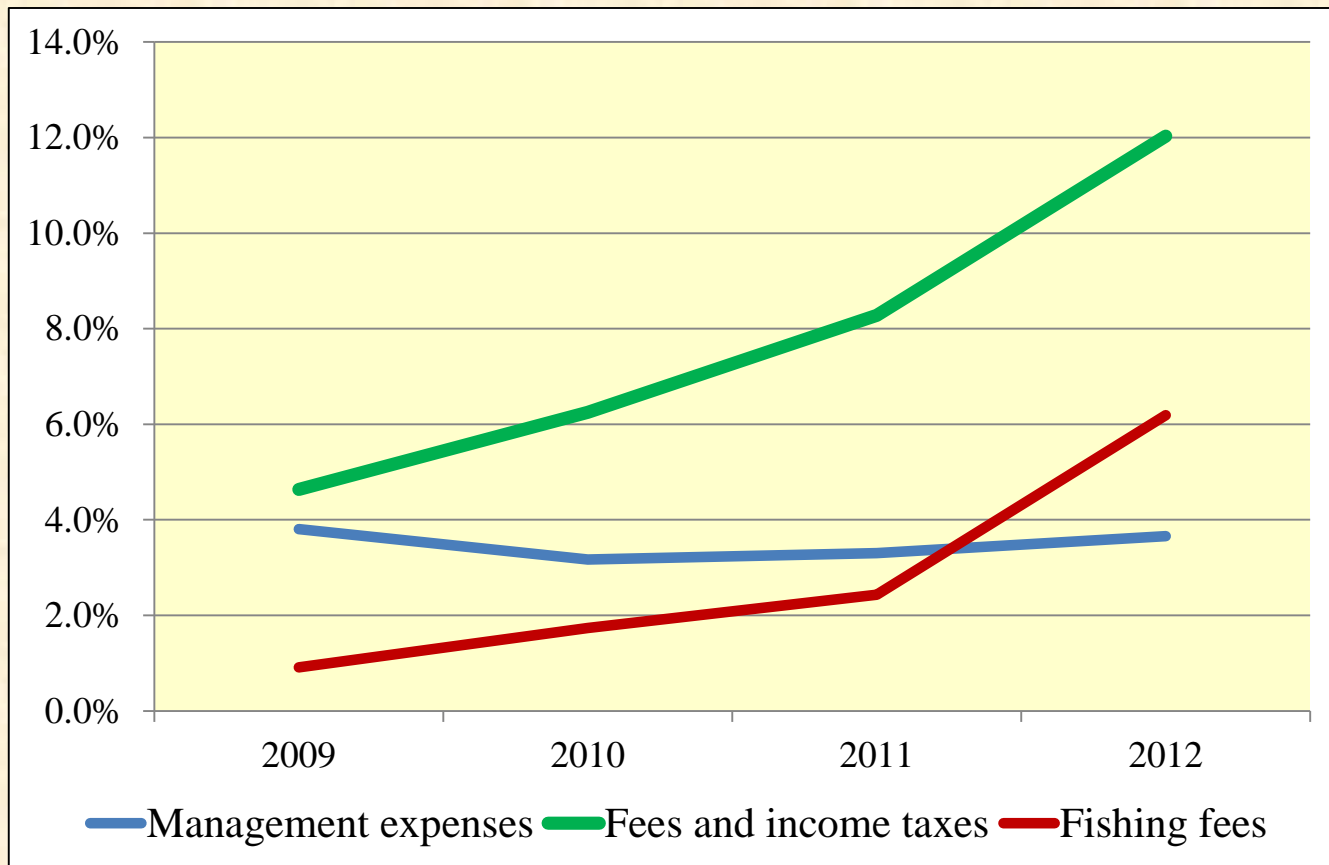
Expenses and fees (Fractions of landed value)



Fishing industry income taxes (Fraction of landed value)



Fishing industry services, fees and profit taxes (Fractions of landed value)



How has the system worked?

1. Management costs are not very high
 - But probably unnecessarily high - inefficiency
2. The fee system is controversial
 - Industry: Far to high – eroding our competitive position
 - Many others: Too low – rents from “our resource” collected by private companies

Why is the current arrangement inefficient?

1. Rent seeking

- Fees are government revenue to compete for
- No relationship between services and payments => industry seeks maximum services

2. Benefit maximizing civil servants

- Provide the services they want

3. Distorts international competitiveness

- Like differential taxation

A little analysis

Benefits: $\Pi(z)$

Costs: $C(z)$

Social opt: $\Pi_z = C_z$

Perfect markets will generate the social opt !

Public providers: $U(z)$

- If can charge for costs \Rightarrow maximize their benefits: $U_z = 0$
- If constrained by budget: $F = C(z)$
- If can retain unused fees: Extract all rents

A more efficient arrangement

1. Industry provides its own services
 - Provides it as a club good
 - May need some legal support for that
2. Government provides the public good component (general info etc.)

END

Organization

1. Background of study
2. What services are provided
3. How much do they cost
4. How much does the industry pay
5. How has the system worked
6. A more efficient arrangement