ITQs: Ways, Means and Impacts

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Overview

Practical perspective on fisheries and ITQs:
- New Zealand
- Falkland Islands
- Pacific Northwest, USA
**Terminology**

*Quota:* Right to harvest a set amount or proportion of fish species/stock in a defined area.

*Individual Transferable Quota (ITQ):* Quota that can be bought or sold on an open market. Is usually a multi year or perpetual right to harvest a stock.

*Annual or seasonal Catch Entitlement (ACE):* A form of ITQ that lasts only for a year or for a season that can be traded or sold without giving up the long-term ITQ that it is derived from.

*Quota Management System (QMS):* A fisheries management regime where access is based on the ownership of ITQ or ACE.
Lessons Learned

ITQs are not:

- A panacea for all fishery management problems
- Appropriate for all fisheries
- About “economic efficiency” at the expense of “community”
Lessons Learned

ITQs are:

- The foundation stone of a flexible fisheries management approach
- Much simpler to implement than commonly believed
- A catalyst for state fisheries management reform and seafood industry growth and development
Lessons Learned

Allocation:

- Initial allocation is an important political issue
- Initial allocation is not critical to subsequent development of fisheries
- Constraints on, and mechanisms for transferability of rights are critical in shaping subsequent industry development
- Allocation rules and transferability rules must be transparent, appropriate and enforceable
Approaches to Implementing ITQS

Comprehensive:
- New Zealand
- Iceland
- Falkland Islands

Selective:
- Australia
- Canada
- USA

- Both seem to be successful
- Comprehensive implementation of ITQs is usually part of fundamental review of fisheries management system
QMS: New Zealand’s Objectives

- Rebuild inshore fisheries where required
- Ensure that catches are limited to levels that can be sustained over the long term
- Ensure that catches are harvested efficiently with maximum benefit to the industry and to New Zealand
- Allocate catch entitlements equitably based on an individual permit holder’s commitment to the fishery
QMS: New Zealand’s Objectives

- Integrate management of inshore and offshore fisheries
- Develop a management system that can be applied both nationally and regionally
- Enhance the recreational fishery
ITQs: Expected Outcomes
Falkland Islands

- Security of access rights will enable companies to invest in downstream value-added and diversified activities in the knowledge that their access to the fishery was secure
- Tradability of rights will improve the overall efficiency and hence profitability of a fishery by allowing less efficient fishers to trade rights to more efficient fishers
ITQs: Expected Outcomes
Falkland Islands

- Flexibility with respect to which vessels can be used to fish quota and also the timing of harvest for some finfish will improve economic returns to fisheries.
- Secure access and reduced harvest competition will encourage companies to manage fishing effort and marketing activities co-operatively thus increasing potential returns to all fishery participants and maximising the total value of fishery resources.
ITQs in the Falkland Islands: Key Allocation Issues

- Who should own ITQ?
- How are the ITQ to be allocated initially?
- How transferable should ITQ be?
- Should there be caps and restrictions on ownership?
Who Should Own ITQs?

Ownership options included:

- Allowing any company or individual to own rights
- Allowing only companies to hold rights
- Establishing other restrictions such as banning foreign ownership of ITQ and restricting rights to those actively engaged in fishing & related activities
Who Should Own ITQs?

- Companies 100% owned by Falkland Islanders
- Companies in effective control of ITQ rights
- Companies actively engaged in the seafood industry and activity is proportional to ITQ holdings
- Companies making efficient use of rights
How Should ITQs be Allocated Initially?

- Will the rights be sold or given away or some combination of both. If sold are they tendered or auctioned and do existing fishers have first option on purchase?
- If the rights are given away who is eligible and how is this determined?
- Once eligibility is determined how are rights allocated?
- Does vessel size, gear type or some other restriction condition the rights?
Context is critical

- No legal expectation that current 1 or 5 year licenses would be renewed
- Reasonable expectation based on past experience that current 1 or 5 year licenses would be renewed
- To reallocate rights on expiry would cause a major redistribution of wealth and a significant disruption to the stability of the domestic fishing industry
- Companies without current licenses either had the opportunity to apply for a license or have been unsuccessful in their applications for a license
Criteria for Allocating ITQ

No answer that will satisfy everyone!!!!

- Sustainability
- Community and social objectives
- Economic efficiency
- Equity
Sustainability

- If a fishery is fished with two or more gear types, the less sustainable gear type should be issued with a smaller share of the ITQs than the more “sustainable” sector.
- Reduce the environmental impact of fishing by the direct regulation of gear types, season length, total allowable effort/catch etc.
- If some ITQ holders are more heavily impacted than other ITQ holders they can trade ITQs or ACE to pay for gear modifications or exit the fishery completely.
Community and Social Objectives

- Optimizing community benefits and achieving community needs and interests
- Relevant objectives where fishing and fish processing are major employers
- ITQs almost always lead to rationalisation where there is over-capacity and over-fishing
Community and Social Objectives

- Lower catches and fewer participants can mean fewer processors costing jobs in fisheries dependent communities.
- Corporate control remote from fishing communities can lead to fears of price-fixing, reduced bargaining power for crew and independent processors, monopolistic control and collusion.
- Many of the concerns about increasing corporate involvement in fisheries can be managed through transferability restrictions.
Falkland Islands rejected use of community and social objectives:

- Falkland Islands fishing interests are already structured as vertically integrated fishing companies
- No small fishing interests or an independent processing sector
- Social objectives should be so directly by targeted expenditure. The fishing industry is not a mechanism for wealth distribution
- To do otherwise opens the allocation process to vying vested interests using social objectives as a convenient guise
Economic Efficiency

Allocate ITQs to most efficient fishing companies:

- The initial allocation of rights affects wealth distribution, but it does not affect the level of efficiency.
- Subsequent trade in ITQ brings about efficiency.
- Many practical problems in determining which companies are most efficient.
  - No two companies will have the same assets or structure their operations in the same way.
  - Comparing incumbents with potential new comers is difficult.
Equity (Fairness)

ITQ allocation should be fair and equitable:

- Procedural fairness
- Minimize the redistribution of benefits among current fisheries participants unless there is overwhelming evidence that redistribution is in the national interest
- Of the four criteria the Falkland Islands used fairness criteria for initially allocating ITQ
  - ITQ allocated to incumbents based on catch history
  - Annual resource rents collected in lieu of auction of ITQ
How Transferable Should ITQ Be?

ITQ can be:
- Fully transferable by sale, lease, gift or inheritance.
- Sold but not leased
- Leased but not sold

Falklands decided there would be two classes of ITQ:
- Long term ITQ a share of the total fishery
- Short-term ACE
How Transferable Should ITQ Be?

- ITQ is expressed as a proportion of the total fishery measured in effort or catch.
- ACE is the amount of catch or effort that the permanent right allows the holder to take in a season or year.
- ACE expires at the end of the fishing season or fishing year.
- ITQ rights can be traded freely among Falkland Islands companies.
- Annual/seasonal rights traded more widely among joint venture companies.
How Transferable Should ITQ Be?

ITQ/ACE arrangement:

- Is consistent with foreign joint venture structures in the Falkland Islands while giving Falkland Islands companies a more dominant position in the relationship by virtue of rights-ownership.
- Provides a potentially larger and/or more efficient trading market to maximize the economic benefits of having individually transferable rights.
- It recognizes that foreign companies who are important investors in the Falklands Islands should also have a place in the ITQ system, albeit more limited than Falkland Islands companies.
Ownership Caps and Restrictions

- Concerns about any one company gaining too much market power influencing market price, ex-vessel price or even wages and payment to suppliers
- Concern that the benefits from a public resource should not accrue to one or only a few individuals
Ownership Caps and Restrictions

- No simple way of balancing competing concerns about market dominance and monopolies with the benefits that economies of scale bring for harvesting, processing and marketing
- Falkland Islands fudged issue by providing for aggregation limits to be set for ITQ and ACE on a fishery by fishery basis
Resource Rents

- Resource rents are payments made to the State that arise from the State’s ownership of the fisheries resource.
- ITQs improve the efficiency of production and hence increase the amount of rent extracted from the fishery by fishers.
Resource Rents

- The state can claim share of rents to pay for the costs of managing the fishery and/or to ensure that some of the private gains from ITQs are shared by the public who have a stake in the resource as it is owned by the state.
- Falkland Islands collect rents on basis of ITQ ownership in a fisheries
Cost Recovery

- An ITQ system will entail additional administrative, enforcement and monitoring costs.
- Under cost recovery these costs are identified and recovered directly from ITQ holders.
- This payment is additional to any resource rental payments.
Cost Recovery

- In the Falklands cost recovery only applies to the cost of administering the ITQ/ACE component of the management system and not to the management or enforcement of Islands fisheries.

- In New Zealand there are no resource rents but cost recovery is broader covering State fisheries management, research and compliance costs attributable to the commercial fishery.
Formalize Good Consultative Practice

- The introduction of the ITQs increases the potential for conflict to develop between ITQ owners and the State because of the impact of fisheries management decisions on the value of rights.

- Formalising decision making and consultative processes can reduce the potential for conflict.
Good Consultative Practice

Characterised by the following qualities:

- **Expertise**: the person/people making the decisions about fisheries management issues are well informed about the fishery related issues.
- **Independence**: The process of decision making as well as the people responsible for its implementation are not controlled by parties with a vested interest in the outcome.
- **Transparency**: The process is open to scrutiny and does not include hidden or secret influences.
- **Fairness**: The same rules apply to all.
- **Inclusiveness**: All interested and affected parties are able to participate effectively.
Good Consultative Practice

Functionally the procedures should be:

- Accessible: the process for applying for access to the fishery should be simple
- Principled: The principles and criteria for arriving at decisions should be known in advance and clearly guide the work of decision makers so as to lead to consistent outcomes
- Structured: The steps used in arriving at decisions, guided by principles and criteria should be clear
- Accountable: Advice provided to the decision makers should be public and supported by reasons
Stakeholder Organizations

ITQ have encouraged fisher associations based on functional and/or territorial communities. Associations have a number of purposes including to:

- Collect funds to finance fisheries management activities such as research or enhancement and to manage the delivery of such services.
- Make fisheries management rules and to impose sanctions on non-complying members of the association.
Stakeholder Organizations

- Represent the interests of shareholders in government processes that involve consultation
- Defend against erosion of ITQ rights and to promote the expansion and development of management privileges