

Good for Nothing?

In British Columbia, quota leasing from individual transferable quota (ITQ) holders is a grinding economic burden in the small-boat fishery

Ever since the 1999 FishRights99 conference in Freemantle, Australia, Canada's Department of Fisheries and Oceans (DFO), as well as many economists, have been touting the merits of the individual transferable quota (ITQ) scheme introduced for Canada's Pacific fisheries as an example of how property rights can achieve multiple objectives—from improving economic efficiency to fisheries conservation.

Despite several studies that point to negative impacts of the ITQ system—on fishing vessel safety, overcapitalization and the financial returns to working fishermen—the DFO's website continues to promote the merits of the system as “particularly innovative and encouraging” and contributing to the “long-term economic viability of fisheries and to the long-term benefit of the Canadian economy”

The principal metric for this assertion is the impressive increases in quota value since the ITQ scheme was introduced (halibut quota, for example, increased fivefold in real terms during the first 15 years of the system).

While the increased value of traded quota is indisputable, this value has not gone to the people who actually catch the fish. Rather, the quota-leasing schemes established by the DFO in several Pacific fisheries have become a huge economic burden for small-boat owner-operators in British Columbia's commercial fisheries.

The principal reason for this is that in Canada's Pacific fisheries, there are no restrictions on who can own fish quotas, unlike the situation

in Atlantic Canada, where owner-operator rules are in place. By allowing non-fishermen to own quota and lease it to fishermen, the DFO's policy in the Pacific fisheries has created a separate class of non-fishing quota owners who are siphoning off most of the value of these fisheries.

With virtually no restrictions on who can own or lease quota, in the space of a few short years, access to the most lucrative species has got concentrated in the hands of 'investors', forcing active, professional

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fishermen to lease most of the quota they fish, often paying more than two-thirds of the landed value in lease prices.

The leasing costs vary from month to month and year to year but in the more valuable species—sablefish and halibut—leasing costs consistently account for at least 70 per cent of the landed value. Table 1—based on actual costs for a small-boat fishing trip in British Columbia in March 2011—illustrates the problem.

Leasing fees

The leasing fees paid by the fisherman represented 75 per cent of the landed value for sablefish and halibut, 50 per cent for rockfish and 38 per cent for his lingcod. (The price for rockfish represents

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Table 1

Species	Dockside price per lb	Leasing cost per lb	Leasing percentage of landed value
Halibut	\$6.00	\$4.50	75%
Sablefish	\$6.00	\$4.50	75%
Rockfish	\$1.00	\$0.50	50%
Lingcod	\$1.35	\$0.35	38%

an average price for a number of different species.)

During this particular trip the fishermen landed 22,000 lbs of fish. Valuable halibut and sablefish made up 37 per cent of the catch, rockfish another 37 per cent and lingcod, 26 per cent.

As Table 2 indicates, the total landed value for the catch was \$64,000. From this revenue the professional fisherman who owns and operates the vessel paid \$42,000 to lease the quotas, \$9,000 to his crew and \$6,000 in vessel expenses, leaving only \$7,000 for the boat share, that is, for his income and return on investment.

Table 2

Revenue	Amount	Per cent-age
Landed value	\$64,000	100%
Expenditure		
Quota leasing	\$42,000	66%
Vessel expenses	\$6,000	9%
Crew share	\$9,000	14%
Subtotal of expenditures	\$57,000	89%
Boat share	\$7,000	11%

The income from quota leasing is so lucrative that quota holders have no incentive to sell their quota to working fishermen. The quota purchase price, at the time of this fishing trip, was \$55 a lb for halibut and \$45 a lb for sablefish (approximately 9 and 7.5 times their respective landed value in 2011) making it uneconomic to purchase outright as a business venture. Even the price of lingcod quota, at \$7.50 per lb (5.5 times the landed value), is

not economical to purchase outright if the money has to be borrowed from a credible lending institution.

The irony of this situation is that the original quotas were allocated free of charge to active fishermen based on their share of the historical catch of the different fisheries they participated in. Most of these original quota holders no longer fish due to age and other reasons but retain the quota as a retirement income or have willed or sold it to others.

The economic theory behind this scheme is that in oversubscribed fisheries, quota trading will quickly eliminate marginal operators by efficiently re-allocating fishing to the most efficient operators, rationalize the fishery and lead to more viable individual enterprises.

Rather than supporting more efficient fishing enterprises that will maintain a healthy and economically viable fishing industry, under this system even the most efficient of fishermen are unable to earn enough to reinvest in the fishery. They have become perpetual renters, unable to purchase the quota that they fish year after year or to make other important large-scale investments (for example, in vessels).

In 2005, the Canadian Council of Professional Fish Harvesters' published a report that showed the numbers of skilled fishermen left in British Columbia were declining rapidly, and the workforce was much older than in the Atlantic. The impact of leasing fees on the viability of fishing was identified as a major contributor to this phenomenon.

Fishing viability

The leasing system is undermining the very viability of fishing enterprises and the attractiveness of fishing as a career path for the next generation of

fishermen because of poor economic returns to those who actually fish.

Due to the disproportionate amounts being siphoned off fishing operations to lease quota, there is no money left over for proper capitalization of vessels, and there is not enough money to pay crew a decent wage for very dangerous work.


Contrary to theory, the schemes have not eliminated overcapacity. There are still more multi-species fishing vessels with latent capacity than available quota in British Columbia fisheries like those for halibut and sablefish. This situation keeps quota leasing prices for these species very high, as the large pool of vessels compete amongst themselves for enough quota to go fishing. Fishermen or vessel owners with a trained crew have no choice. They need fish to make a living and if they do not enter the leasing game, their boat stays tied to the dock.

The move from a fishermen-driven to an investor-driven fishery also works to stifle any critique of the leasing system from inside the fishery. Research has shown that it is very easy for those who control and own quota to collude to make sure that any active fishermen raising questions about the system do not get any fish to lease by blacklisting them and making it impossible for them to earn a living.

The latest twist in the ITQ saga occurred in mid-February 2012 when Canada's Minister of Fisheries used his discretionary power to re-allocate three per cent of the halibut quota from the highly regulated commercial fishing sector to the unregulated recreational sector. Under this year's total allowable catch limits, this represents 210,000 lbs of halibut or more than \$10 mn in quota investment. No compensation has been offered to the quota owners for the loss of investment or revenue.

The irony here is that the DFO promoted ITQs as *de facto* property rights that would stabilize allocations. A further irony is that one of the justifications for this re-allocation to the recreational sector was that the

halibut fishery was controlled by non-fishermen.

ITQs in Canada's Pacific fisheries have been proven not to improve the viability of the small-boat fishermen due to exorbitant leasing arrangements. They do not lead to a safer working environment, they do not lead to better incomes for working fishermen, and now they have also been proven not to stabilize allocations as recently shown by the re-allocation of halibut from commercial to recreational interests. So the question now remains: What exactly are ITQs really good for? 

For more

ecotrust.ca/fisheries/cautionarytale

A Cautionary Tale About ITQ Fisheries. Ecotrust Canada

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Impacts of Harvesting Rights in Canadian Pacific Fisheries Final Report. Clark, Munro and Associates, March 2007

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Pacific-region Fisheries Management