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Brief to House of Commons Standing Committee on Fisheries and Oceans

Subject: REGULATION OF THE WEST COAST FISHERIES

From: Robert Morley

I am a recently retired executive from a major fishing and fish processing company in British Columbia. I worked with that company for 22 years and was responsible for all of its fish purchasing, fishing vessel operations and maintenance and licensing activities.

For ten years prior to that I worked for the Fisheries Council of British Columbia, the association that represented most of the major fishing and fish processing companies in BC.

I began my working career in 1974, after graduation from university with a degree in economics, with the Department of Fisheries and Oceans as an economist. I held several positions in my 13 years with the Department, leaving as Advisor to the Regional Director General for International and Intergovernmental Affairs.

My academic training as a resource economist, together with my experience both in government and the private sector has taught me that when considering significant policy changes there must be a careful analysis of objectives and possible options to achieve those various objectives prior to making decisions.

I note that the Terms of Reference for this study are specified as:

“That the Committee undertake a study to examine the regulation of the West Coast fisheries, specifically in relation to fishing licences, quotas, and owner operator and fleet separation policies, in order to evaluate the impact of the current regime on fisheries management outcomes, the distribution of economic benefits generated by the industry and the aspirations of fishers and their communities, and to provide the government with options and recommendations to improve those outcomes.

I feel the selection of witnesses and the evidence provided the Committee on this important topic has been lacking when it comes to providing a balanced, objective and thorough analysis. In particular, there has been virtually no testimony or consideration of economic professionals with a full understanding of the history of economic regulation and licensing of common property fisheries, particularly in the British Columbia context.

Observation and Outline of Submission:

With respect to the mandate of the committee to examine the regulation of West Coast fisheries, specifically in relation to fishing licenses, owner operator and fleet separation policies I make finding that - License policy changes need to recognize the unique nature of fisheries resource management and access regimes – changes that do not account for the predictable economic responses in a common property competitive industry will fail to achieve intended objectives.

Fisheries are a unique natural resource and pose different management challenges than virtually all other natural resources such as forests, land and mineral resources. Given their ownership structure, i.e. a common property resource that is not owned by any individual, nor by the Crown, understanding these characteristics is critical to achieving successful management regimes.

In addition, similar to many other natural resources, under the right circumstances (resource abundance and market demand for derived products) fisheries can generate significant net economic benefits, since they can often be harvested (caught) for a fraction of the value generated from the sale of the catch (even after deducting fair competitive remuneration for the capital and labour inputs. How this surplus is created and how it is distributed amongst the participants is central to the debate surrounding licensing policy you are studying.

Historically fisheries in British Columbia were managed under an open access/unlimited licensing regime. In this situation there is no economic surplus generated. With unlimited entry any time the returns from fishing exceed the costs required to own or operate a vessel and pay a fair wage to employ sufficient crew, new entrants will come into the industry until that surplus disappears (assuming the total catch is regulated for conservation purposes at some fixed level). In this scenario, licenses have no value – anyone can get one and they do not confer any access to economic surplus or economic rent.

This type of management regime existed in BC fisheries until 1969. At that time, the Davis plan was implemented. It limited the number of licenses in the salmon fisheries. Regional Director General Rebecca Reid testified regarding the evolution of licensing regulations and policy over the last 50 years since. The challenge over that time period has been to enable fisheries managers to manage the harvest in a complex array of different species, areas and time periods to ensure an orderly harvest that meets resource sustainability objectives. Initially this resulted in an increasingly complex series of license conditions to limit the number, size, gear, area and time permitted for fishers and their vessels in the myriad of fisheries on the Pacific coast. More recently, fisheries management developed new tools to restrict

the harvest, specifically “catch shares” or “individual quota share” management systems.

The primary goal in all of these limited access regimes has been to ensure the fisheries can be managed in a sustainable manner to protect the conservation mandate of the government managers. Secondly, many of the new or modified regimes, when they were developed, had as an objective, increasing or improving the income of fishers.

While the licensing and fisheries management regime in BC’s Pacific fisheries has been increasingly successful in achieving conservation objectives, the results for achieving income objectives have been mixed at best. Some licensing policies and new regimes have had temporary success and many have had significant success for the initial holders of the licenses (virtually all of whom were originally working fishers). The longer-term success has been far more limited.

Understanding the reasons for these outcomes is important when proposing and analyzing potential changes to license policy and regulations going forward. Fishers operate in a largely individually competitive environment. Fishers will expend money and energy to increase their harvest over all other fishers to the extent they perceive they will gain an economic advantage or benefit by so doing. What this means in any competitive or “olympic” style fishery is that while increasing fishing capacity by adding capital or labour inputs to increase gross income may make sense for an individual in the short term, in the longer term once everyone follows suit, everyone is adding costs and only getting their initial shares – so everyone is worse off. As a result of this behavior past efforts to increase incomes through fleet reductions in competitively managed fisheries have usually failed.

From time to time, fisheries regulators have implemented some effort or input control measures that have slowed the “race to fish” and generated some economic benefits. However, the most successful technique to eliminate the race to fish that dissipates the economic surplus generated from fishing is a “catch share” or “individual quota” system. These systems change the entire incentive program from adding capacity and cost to generate a larger catch and therefore income to one of managing the permitted harvest to increase value and lower cost catching because the amount is secured by license.

The amount of economic surplus generated is dependent on the difference between the value of the product that can be caught using the limited license, access privilege or quota share and the costs of harvesting (i.e. how much needs to be allocated or paid to the boat, gear and crew to catch the fish). This varies greatly between different species and fisheries depending on market values, the size of the harvest rights or privileges and the actual costs of fishing. Access to this “surplus” is completely intertwined with access to the license. When initial allocations of limited license and/or quota privileges are provided to existing fishery participants, they will have access to this surplus as long as they continue to exercise that right, whether through direct participation or by annual leasing of the license or quota.

When a license or quota holder decides to exit the business, new entrants will pay to acquire that access (i.e. that ability to enjoy a stream of benefits over that actually required to pay for harvesting the resource) and the economic surplus will then become capitalized in the value of that license or quota share. This will occur in the same fashion whether or not the fishery is just a limited license or a quota managed fishery.

With this understanding of fisheries economics I would like to turn to the most common issues, objectives and policy options that are being discussed by several of the witnesses.

Issues:

1. Aging or greying of the fleet
2. Difficulty of access for new young prospective entrants into the fishery
3. Unfair distribution of risk and reward between license holders and on-board fishers.

Potential policy options that have most often been proposed to the Committee as solutions for these issues have been:

- Owner-operator licensing
- Fleet separation (i.e. no ownership or control of fishing licenses/quota by processing companies)

Discussing each of these issue/proposed solutions I would make the following observations for consideration of the Committee:

1. Aging of the Fleet:

The number of fisher “jobs” or positions in the industry have declined to ½ their previous number over the last 15 years, from approximately 10,000_ to 5,000. This is not unique to the fishing industry. Similar declines in employment have occurred across all primary resource industries in BC. Employment in the forest sector has dropped from about 100,000 to 50.000 in the same period. These reductions have occurred due to a combination of resource availability and technological change. Thus, there are fewer “new jobs” available each year and less turnover in the workforce. Couple this with the demographic profile of the BC population and it is not a surprise that the average age of fishers is increasing. This is true in Alaska and Atlantic Canada as well, where license policies are different and some have suggested incomes are higher relative to BC. This fact is not evidence of any flaw or problem with unique licensing policies in BC.

2. Access for new entrants

Difficulty for new, young entrants to the fishery due to high costs of acquiring licenses or quota shares is largely the result of lack of access to capital. Entry in to

any industry by acquiring a business normally entails purchasing not only the physical assets of the business, but also some payment for licenses or “goodwill” of the business. There is nothing unique about this. In the BC fisheries the cost of acquiring licenses, whether with quota attached in the ITQ fisheries, or simply a license in the competitive fisheries is substantial (e.g. \$400-500,000 in crab, prawn and salmon seine fisheries). Whether there is an “owner-operator” and/or “fleet separation” policy in effect does not change this situation in any material way. Evidence of this is that in Alaska and Atlantic Canada this issue still exists (where they have some elements of these policies in effect, and license values remain high). License and quota values are still large and provide an impediment to new entry.

In many regards, “owner-operator” and “fleet separation” make this issue more difficult for those fishers resident in smaller and more remote communities. As you have heard, traditional lending institutions are not keen to loan against license or quota values and generally require other assets as collateral – this provides a distinct advantage to urban dwellers whose home equity will support far larger loans, and thus provide more ability to pay for licenses. Fishing companies have been and are a potential source of capital that is more willing to risk loans to fishers without the same collateral requirements. In Alaska this is a common source of financing for local fishers. As the Committee has heard, fishermen loan programs non-existent in BC. Recommendations you have heard regarding specific loan programs for new entrants would be helpful to allow better access to capital.

3. Unfair distribution of benefits

With regards to the risk and reward distribution between license or quota holders and on-board operators, the results of owner-operator provisions will not change that equation from the current situation. As explained above, the “economic surplus” will be attributable to the licensed access and will be purchased by any new entrant at a cost. Their willingness to pay for that will be tempered by how much they need to cover their vessel, gear and crew operating costs. Nonetheless competition for purchasing the license/quota will mean that if a new entrant wants to pay more than competitive wage or share to a fisher (i.e. the minimum amount to attract and maintain qualified crews) they will have difficulty procuring licenses or quota shares. In a settlement, the acquisition cost of license or quota will have to be factored in (just as capital costs of vessels are).

The historic and existing licensing regime with no restrictions on corporate ownership or multiple vessel and license ownership has led to a certain industry organization of the Pacific Coast. The vast majority of multiple vessel and licenses owners who do not operate all of their own vessels are independent fishers, not processing companies. In addition to these individuals, several First Nations organizations and corporations own multiple licenses and substantial quota. These fishing enterprises support hundreds, if not thousands of jobs in many coastal communities. Owner-operator and fleet separation policies would destroy these enterprises.

Conclusion and Recommendations:

The Committee's mandate was to investigate the regulation of West Coast fisheries in relation to fishing licences, quotas, and owner operator and fleet separation policies, in order to evaluate the impact of the current regime on fisheries management outcomes, the distribution of economic benefits generated by the industry and the aspirations of fishers and their communities, and to provide the government with options and recommendations to improve those outcomes.

A balanced economic analysis of the impact of introducing owner-operator and fleet separation policies to the West Coast licensing regime shows they will not address the problems or meet the objectives identified by their proponents.

Introduction of these policies will cause serious negative impacts on hundreds of fishing enterprises owned and operated by many independent fishers in coastal communities.

The committee should not make any prescriptive recommendations on changes to license policy in these areas prior to a more comprehensive, balanced review of the consequences by qualified resource economists and full consultation with all the affected parties.

Submitted respectfully,

Robert Morley