Individual Fishing Quotas (IFQs):

What Should We Do?

Testimony prepared by

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IFQs: What Should We Do?

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify on individual fishing quotas (IFQs) as they relate to reauthorization of the Magnuson-Stevens Act. Because IFQs affect both wealth and the structural makeup in a fishery, the subcommittee expressed interest in hearing views on a number of issues related to the use of IFQs. Before launching into these issues, I would like to point out something at the outset: IFQs arose in response to significant problems plaguing many U.S. fisheries-namely, overharvesting, overcapitalization, falling fisher income, poor product quality, and hazardous fishing.

These are problems that decades of traditional regulations-restrictions on fishing vessels and gear, area fished, fishing times, and a total allowable catch (TAC)-have failed to solve. Indeed in a number of cases they have exacerbated these problems. For example, in the Alaska halibut fishery prior to IFQs, season duration was progressively shortened to prevent actual harvest from exceeding the total allowable catch (TAC). Not only did actual harvests often exceed the TAC, fishermen overinvested in vessels, gear and labor in an attempt to win the race for fish. The compressed fishing season also forced fishermen to fish under hectic and sometimes dangerous conditions. There was enormous waste of halibut from lost or abandoned gear and from spoilage. Fresh fish was delivered over short periods which led to market gluts and frozen halibut for consumers for most of the year.

IFQs have eliminated or significantly reduced these problems. By allowing managers to extend the fishing season from a few days to about 8 months, fresh halibut is available for most of the year; fishing safety is vastly improved; the amount of fish lost to abandoned gear has fallen dramatically, and annual harvest goals

are being met (See Exhibit A).

Fleet excesses have also been reduced as intended (Exhibit B). Some vessel owners and crew have exited the fishery but new entrants, including hired skippers and crews under the old regime, are now quota holders in the fishery. According to Alaska's Commercial Fisheries Entry Commission, previous crew members acquired after four years of the program anywhere from 9 to 17 percent of the quota share units outstanding depending on the region fished.

The Alaska halibut fishery exemplifies the kinds of improvements that have occurred in other fisheries under IFQs around the world. Overall, IFQs have reduced overcapitalization in the fishery, raised fisher income, reduced hazardous fishing, improved product quality, and importantly, when IFQs represent permanent shares, as they do in New Zealand, they have encouraged fishermen to cooperate and invest in improving the health of fish stocks.

On the question of whether IFQs be used as a management tool, the evidence is clear. IFQs are a far superior approach to traditional regulations in correcting the problems of overfishing and overcapacity. **As such, I recommend that Congress lift the moratorium on the development and implementation of IFQ programs.**

IFQs work because they give the holder the certainty that his or her allocation of the TAC will not be taken by someone else. This certainty has proven very effective at mitigating the race for the fish. Moreover, because they are transferable, IFQs can be very effective in reducing overcapitalization plaguing so many U.S. fisheries. Rather than engaging in a losing a proposition less efficient fishers sell their quota shares and move on while more efficient fishers work to reduce fishing costs and product more value in the fishery.

The one drawback as IFQs are defined under current U.S. law is that the incentive for fishers to act collectively in husbanding the resource and in complying with regulations for conservation is hampered by the lack of permanency of quota shares. **To enhance fishermen cooperation to conserve the resource an IFQ should be made a permanent right to a percentage share of the TAC.**

There has been much controversy on the initial allocation of IFQs. Typically IFQs are allocated to individual vessel owners on the basis of their catch history in a fishery. The rationale for selecting vessel owners and using their catch history is that it provides a quantitative way of taking into account prior investment in developing the fishery. As evidence by the near universal use of this approach in IFQ fisheries around the world, it appears to be the most acceptable approach for initial allocation, at least among current participants.

This approach is not free of criticisms, however. Long delays between the time period used for determining a participant's catch history and implementation of IFQs can lead to controversy. In the Alaska halibut fishery, for example, a long delay in implementation resulted in the exclusion of some fishers who were active in the fishery just prior to IFQs but not active during the time period used to determine catch history. Understandably, these fishers felt they were making the investments in developing the fishery but being left out of initial allocation of quotas. **To avoid such controversy, the time between the control period used in determining catch history for initial allocation and the implementation of IFQs should be as short as possible**.

There are other criticisms related to this approach. Since IFQs are allocated free of charge no revenue is generated from this process. Critics charge that giving away quota amounts to a windfall gain for current

participants. In addition, individuals like hired skippers and crew with no record of catch history can feel they are being treated unfairly. Also, processors may experience lower returns from their investments because of market changes that IFQs bring about.

One obvious way to address these concerns is through the use of auctions for initial allocation. Such an approach is not unprecedented for a public resource-e.g., spectra rights. An auction will generate revenue up-front and allocate quota shares efficiently, if shares are to go to the highest bidder. But an auction can also be modified so individuals who have invested in developing the fishery have at least a price preference in their bids over other bidders. Such an approach can be effective in retaining a majority of prior investors while generating revenue for the government. However, given the fact that bidders will vary in their ability to access financial capital, auctions will probably not eliminate the perception of an "unfairness" in initial allocation. **As such, awarding initial allocations on the basis of catch history still appears to be the most attractive option at this time with some modifications.**

One modification is that councils should allocate a percentage of the TAC to local fishing communities likely to suffer some employment reductions in transitioning to IFQs. These communities, in turn, would have the option of either hiring displaced skippers and crews to fish their allocation or sell or lease to them shares of their allocation. While such an approach may require current participants to give up a fraction of their historical allocations, the willingness to do so should be enhanced by the potential for IFQs to change incentives from maximizing catches to maximizing returns.

In the case of processors, there appears to be no compelling argument for mandating initial quota shares to processors across all fisheries adopting IFQs. Evidence indicates processor impacts will differ on a case by case basis. **In cases where councils determine that processors will be adversely affected by IFQs, another modification is that councils offer them some form of compensation, such as buyouts of obsolete and unmalleable capital**.

The costs of monitoring and enforcement in a fishery increases under IFQs. Unfortunately, information is quite limited on the magnitude of these. Data from British Columbia and Alaska's halibut fisheries gives us some idea of enforcement costs relative to ex vessel price. In 1993, $0.067 per lb., or 3 percent of ex vessel price, was spent on enforcement in the British Columbia halibut IFQ fishery. For the Alaska halibut fishery under IFQs, an estimated $0.073 per lb., or a modest 4 percent of ex vessel price, was spent on enforcement in 1997. In any case, **quota holders stand to benefit greatly from IFQs and thus should pay the full costs of managing IFQs.**

Some argue for an additional annual tax on quota value. This is based on the belief that as trustee of a public resource the government should receive the associated economic surplus or economic rent, which is capitalized along with other profits in quota value and not easily measured. This argument, however, fails to consider the secondary impacts of taxing away quota value. For one, as Johnson (1995) argues in an article in *Marine Resource Economics*, the industry becomes less motivated to conserve the exploited resource preferring that the government set a higher overall harvest level even if it means lower abundance in the future. Moreover, as profit maximizers, private operators are in the best position to lower fishing costs and raise product value in the fishery. The government has neither the willingness nor the ability to do the same. By taxing away quota value the incentive for quota holders to act collectively in lowering costs and improving product value in the fishery is reduced. Indeed taxing away quota value may actually result in lower returns to the treasury than from a fishery whose main source of revenues are taxes from ordinary income. **Thus, quota holders should be allowed to retain the full value of their IFQs.**

Monitoring and enforcement is part and parcel of management costs and is critical to maintaining the integrity of an IFQ system. **To ensure system integrity, councils must require a dual-channel reporting system comprised of fish harvesters and their buyers as well as stiff penalties to discourage cheating.** All fish receivers-fish wholesalers and processors-are required to report fish purchased from fishers. All fish permit holders are required to provide detailed catch reports along with information on effort (vessel, area fished, and the quota share fished after each fishing trip. Penalties must be stiff enough to deter cheating. This would include forfeiture of quota shares for repeated violations.

In sum, experience with IFQs prove they are superior to regulations in ending the race for the fish. They can be controversial, but I hope that the above recommendations can help mitigate some of the concerns so we as a nation can move forward by allowing IFQs as a management tool to rebuild our nation's fisheries.

Exhibit A

Alaska Halibut Fishery

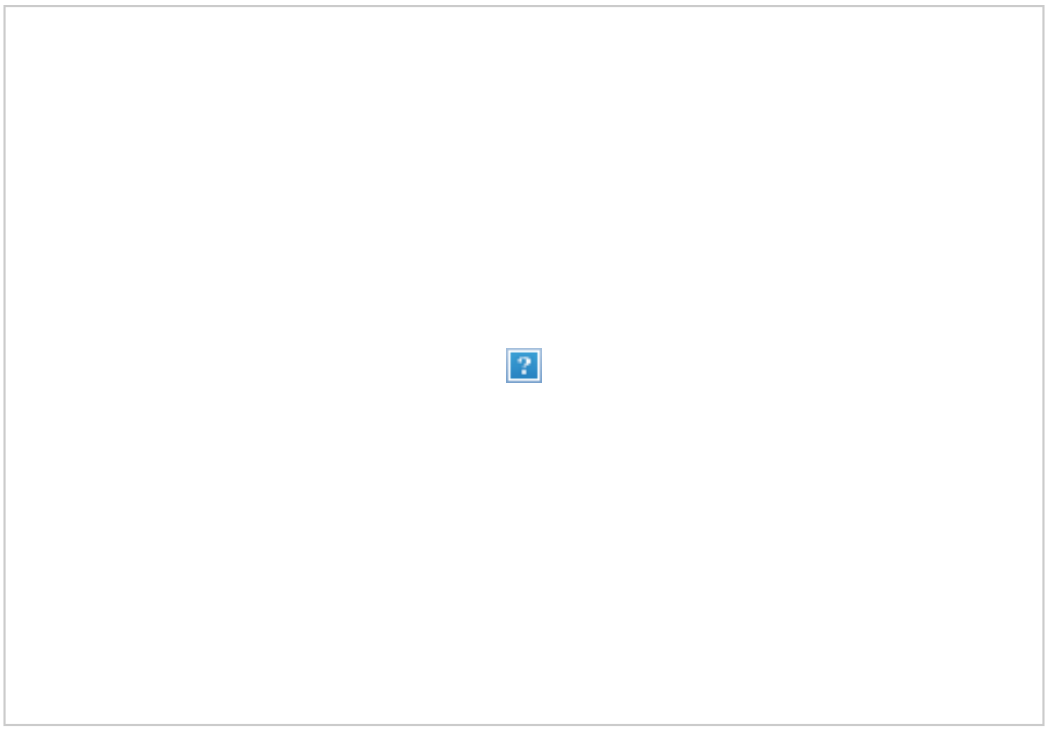
Percent of TAC Harvested

	Management Area			
/Period	2C	3A	3B	4A
1990	102.2	93.0	102.3	139.1
1991	117.4	86.2	135.6	132.6
1992	98.2	100.7	98.0	117.3
1993	112.9	109.8	120.9	126.8
1994	94.4	95.6	96.5	100.2
1995-ITQs	85.6	88.7	85.1	80.6
1996-ITQs	93.6	96.5	94.4	88.9
1997-ITQs	95.6	96.7	97.3	94.0
1998-ITQs	90.8	94.3	96.1	91.4

Source: Alaska Commercial Fisheries Entry Commission, 1999.

EXHIBIT B.

Fleet Consolidation in Alaska Halibut Fishery[(1)]



Source: NMFS, Restricted Access Management Program, Alaska Region, 2000.

1. ITQ program began in 1995.

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