

Effects on Communities of Catch Shares (IFQs): it's all in the design



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Primary Issues discussed

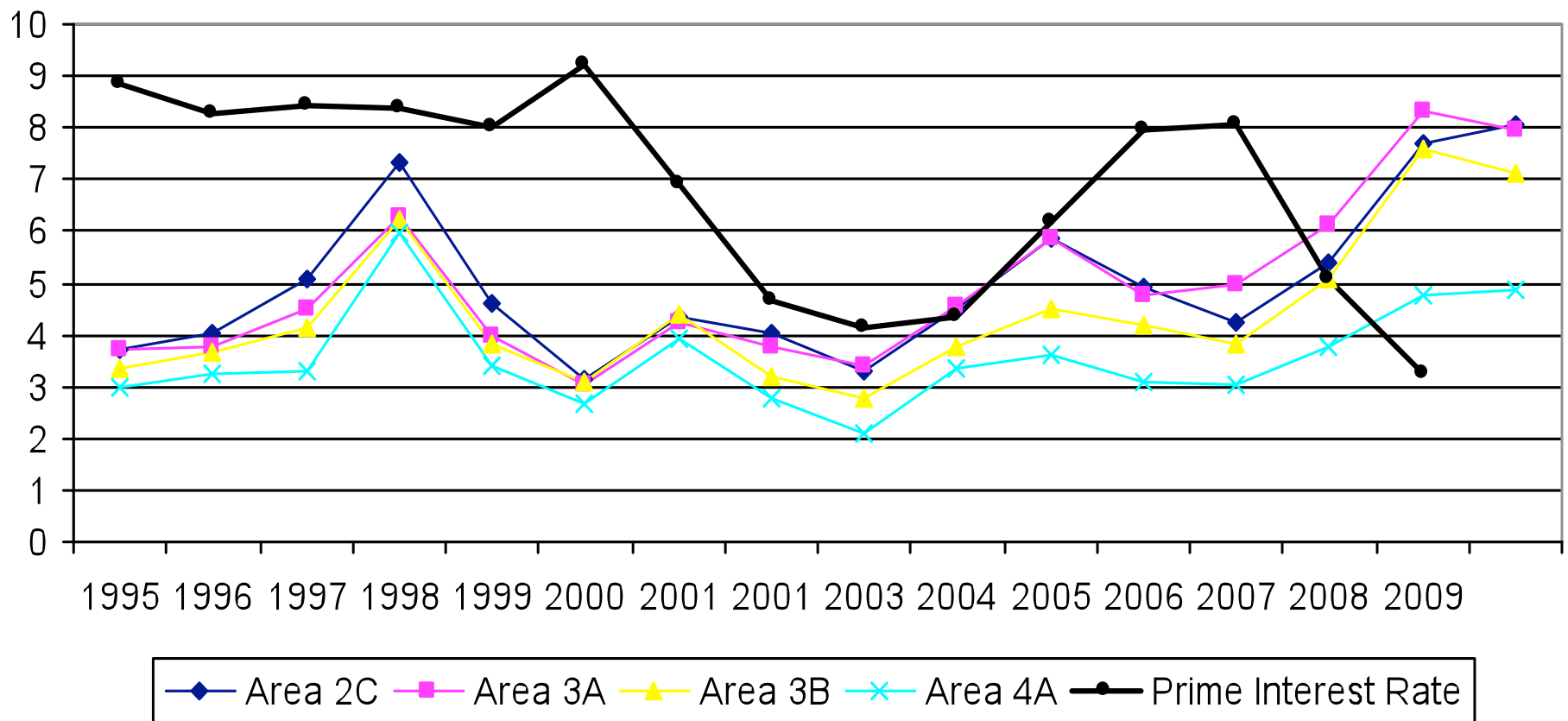
- Community stability/viability
- Intergenerational equity
- Price/earnings ratio inflation
- Effects of leasing
- Creating high debt loads
- Community Trusts as partial solution

26 years old, 15 years experience,
wants to be an owner/captain

- Petersburg, AK – one of the most successful fishing communities in SE AK.
- \$500k for seine boat, gear, permit – just for salmon, not even an IQ fishery
- Halibut quota is \$24-29/lb.
- Dock price fluctuations
- What drives IQ prices?

Price/Earnings Ratios Gap: Why?

Halibut IFQ
Ratio of Ex-Vessel Price to IFQ Market Value



Leasing by Initial Recipients

- Leasing (45-55%) by retired, initial issue owners of quota shares (initial design feature will sunset) generates large amounts of cash.
- Cash buys even more quota for those owners, very few are capped in holdings.
- Indicates more consolidation may happen.
- These buyers are willing to pay higher prices as the cost basis of total QS holdings is very low.
- Leasing shuts down periodic trading
- Perpetual leasing (BC and Pacific Trawl TIQ) leads to "sharecropping" – no ability to hold privileges as assets.

Gifts keeps Prices Up...

- Gifting cuts the cost basis of acquiring new QS substantially, creating a major competitive advantage for further accumulation of QS by the Giftee. On the other hand, Gifting usually comes with an implied revenue commitment of at least 50-70% to the Giftor. Thus the Price/Earnings ratio is at least 25% better for the Giftee.

Debt Loads restrict next generation

- 25,000 lbs of halibut QS at \$24/lb. = \$600,000. If a new entrant could acquire a NMFS loan at 30% down, the cash upfront required would be \$180,000. The remaining debt would be \$420,000. At 8% interest for 30 years, payments would total \$1.12M including principal and interest (interest of \$700k, which is 166% of the principal.)

Community Trusts

- Allowed under MSA as RFA, FC, or CFA (Councils required to establish criteria)
- Precedent in AK as CDQ and CQE
- Function like a Land Trust – holds assets in the public interest
- Keeps Quota in communities for residents
- Leases at low rates (overhead 8-12%)
- Hold a capped portion of potential quota
- Create risk and insurance pools

Key take home/design lessons

- #1: Allocate to Communities Upfront
 - CDQs in AK are thriving multi-million \$ economic development community engines – were allocated quota.
 - CQEs are the opposite; have to buy quota, not making it – too much debt.
- #2 No leasing by retirees (initial issuees)
 - Designers of AK halibut program say this...

Catch Share Design solutions?

- Grandfather some of catch history (active vessels)
- Allocate some to community trusts
- Allocate some for fixed term – 15 years
- No leasing by retirees
- Only community-based perpetual ownerships
- Require performance indicators review for retaining quota in fixed term cycle
- Ensures social, economic, and ecological accountability
- Fosters both business and community