

## Report

### Conference Fisheries and Society – Challenges to 2025

#### Nordic Marine Think Tank, October 2018

##### Key Messages

Market-Based Fisheries Management (MBFM) systems have been introduced widely across the Nordic countries over the past decades and are now considered to be part and parcel of the fisheries policy landscape. They are also deemed to have a positive future and with possibilities for wider use. However, it remains that the detailed design issues still need to be better understood. In this regard the following areas for further investigation are emphasized:

- 1) As MBFM allows for increased earnings in the fisheries sector it also begs the question as to who is to benefit from this, i.e. individual fishers and/or society at large. Once rents are generated society may wish to benefit as well. Meanwhile the issues of taxation and allocation needs further analysis.
- 2) This is closely linked to the initial quota allocation when MBFM are introduced either through allocation (e.g., grandfathering) or through auctions. Such differences are important in assessing if rents are being created and needs further illumination.
- 3) Presently, little work has been undertaken to understand the political processes (political economy perspective) of the introduction of MBFM. While the OECD is reportedly doing some analytics, the Nordics have done little to describe and analyze how such processes take place and what lessons might be shared. The Conference itself was the first of its kind in discussing these issues at length; however more research in this area is needed.
- 4) While there often is a political imperative to safeguard the small-scale coastal fishing communities it remains that this area needs further elaboration. In particular, while acknowledging that small-scale communities (including coastal fishing ones) have difficulties in surviving in modern states where job and education opportunities are often concentrated in larger cities, the role and value of small-scale communities are unknown. At best little research exists on how to assess their existence and contribution, if any, to societies at large. The important point brought up by the Conference is that it is not possible to analyze fishing communities only on the basis of fisheries management settings. Rather these communities, as well as alternative job opportunities, cannot be seen in isolation from other policies and general demographic trends.
- 5) Finally, the Conference also made the point that little is known as to the link between MBFM systems and (as compared to alternative management arrangements) their environmental impacts. In this regard, and against the background of climate change and its impacts on fisheries, further analysis is warranted. There is an important link in this regard to fleet concentration, size of fishing vessels and gear use.

## Introduction

On 11 and 12 October 2018 the Nordic Marine Think Tank hosted the Conference “Fisheries and Society – Challenges to 2025”. The Conference took place in Stockholm, Sweden, and was attended by participants representing all the Nordic countries (Denmark, Faroe Islands, Finland, Greenland, Iceland, Norway, Sweden and Åland Islands) and included politicians, fisheries regulators, fisheries organisations and researchers. The Conference was funded by the Nordic Council of Ministers.

The programme for the event, details on the speakers and a list of participants as well as presentations given by the speakers at the Conference are available on [www.nmtt.org](http://www.nmtt.org).

The first day of the Conference was moderated by Jakup Mørkøre from the Faroe Island’s Ministry of Fisheries, the second day by Carl-Christian Schmidt, Chair of the Nordic Marine Think Tank (NMTT).

“Market-Based Fisheries Management” (MBFM) and “Individual Transferable Quota” (ITQ) are used to identify management measures which create markets of fishing rights or fishing permits. MBFM instruments are based on defining access rights to fisheries resources and include administrative regulations that influence fishers’ incentives and economic instruments based on market interplay. ITQs are a particular form of MBFM. These rights or permits are characterised by property rights attributes including exclusivity, duration, quality of title, transferability, divisibility and flexibility<sup>1</sup>. In fisheries, the most widely used type of market-based instruments is the Individual Transferable Quotas. It is noted though that a range of market-based instruments exists based e.g., on licences, permits, access rights and thus encompasses rights/permits over and above quotas.

## Opening Remarks

In their opening remarks (Anna Larson, Enhetschef, Näringsdepartementet, Carl-Christian Schmidt, Chair of the NMTT and Max Nielsen, Associate Professor, University of Copenhagen) underscored that while Individual Quota Management Systems have been established in most of the Nordic countries it is still in many areas an issue of hot debate. The trade-offs between on the one hand higher economic efficiency and on the other hand negative impacts on coastal fishing communities and on job opportunities in the fishing sector implies that there is no straightforward public policy discourse on the subject. Hence the importance of having a Conference on the use of market-based instruments for fisheries management and to provide some scenarios on the possible effects on the fisheries sector in the period up to 2025.

## Session 1: Presentation of the findings of the substantive reports moderated by Jakup Mørkøre

Max Nielsen presented the report “Structural Development and Regulation of Nordic Fisheries to 2025” (published by NCM and available at <https://goo.gl/htrJKr>).

The report’s main contribution is to document the effects of market based management in selected Nordic fisheries. In addition the report provides forecasts for the possible development of these fisheries sectors until 2025 under the current and under alternative fishery management arrangements. In his presentation Max Nielsen provided scenarios for the future of Nordic fisheries which can be a useful background for a political debate. Specifically, he highlighted that:

1. ITQ is a powerful instrument to increase earnings and remove overcapacity, but simultaneously fleet size and employment in fisheries is reduced;

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<sup>1</sup> For a more in-depth discussion of attributes and the use of MBFM in fisheries see OECD: “Using Market Mechanisms to Manage Fisheries: Smoothing the Path” (OECD, 2006).

2. All prevailing Nordic Market-Based Fisheries Management systems have special arrangements for some vessel groups;
3. The Market-Based Management systems in the Nordic fisheries all have some variation of concentration rule in force;
4. It is not a universal rule that Market-Based Fisheries Management always removes the small vessels;
5. Fishing taxes may play a core role for wealth creation in the fishery dependent Nordic countries;
6. Once established, expensive quotas makes it difficult to remove or drastically change an ITQ system;
7. Continued use of Market-Based Fisheries Management is forecasted to result in continued structural adjustment and to substantially increase socio-economic return and profit towards 2025;
8. Free quota trade induces extra earning both in the form of socio-economic return and profits for the companies for the total fleet in all the country cases where it was analysed. Both compared to the situation in 2015 and to the 2025 situation with unchanged regulation; and
9. An extra fishing tax on 10 % of the landing value can in most of the country cases be implemented without reduced profits for the fishing companies in 2025. While taxes induce a downward pressure on the profits for the fishing companies in 2025, continued structural adjustment in the form of continued fleet reductions is forecasted to counterbalance this effect leading to increased profits in 2025. The socio-economic return will be affected negatively by such a tax, but only marginally.

Jeppe Høst's presentations were based on two reports prepared for the Nordic Council of Ministers, i.e. "Nordic fisheries in transition: future challenges to management and recruitment", and "Nordic fisheries at a crossroad" (reports are available at <https://goo.gl/bezJZ3>).

"Nordic fisheries in transition – future challenges to management and recruitment" reviews the Nordic experiences with market-based fisheries management and discusses the implications for managers and future recruitment. From a historical perspective the fisheries sector is dominated by owner-operated fishing units closely connected to their supporting coastal communities. The introduction of market-based fisheries management plays a role in promoting company-organised fishing units, non-fisher-ownership and new social relations. Introducing market-mechanisms to distribute the limited marine resources is therefore not just a change in the technical regulation. It is an active engagement in social change.

"Nordic fisheries at a crossroad" explores how Nordic small-scale fisheries can develop to promote high value creation and product specialization. Recent developments among small-scale, land-based food producers suggests a development strategy focussing on specialization and dedication. The central notion is to break away from the price-competitive globalised fish markets and develop new products or distribution models, i.e. niche markets. To succeed in this, there is a need for substantive and coordinated efforts to bridge the gap between conventional and the new development logic, between supply and demand. The vision should be to develop viable and composite markets for high quality and specialty fish products through dedication and specialization.

The reports give rise to a number of policy questions, i.e. What are the current and future status of the (partial) protection of "active owners"? Should national resource ownership be reduced if this will increase future competitiveness? And with regard to the challenges concerning the recruitment of well qualified youngsters to the sector: How to make policies support the attractiveness of the fishing

sector for (Nordic) youngsters? How to deal with foreign labour in the fishing industry? How to ensure that policies create entrance points and facilitate career development for young independent fishers?

On a more general level it may be purposeful to see the Nordic fisheries sector as two segments, i.e. one pursuing efficiency and scale, and another seeking added value creation through cross-sectorial links (i.e. tourism, local food production). In this regard it is noted that the use of market-based instruments in the two segments is not incompatible but that the level of concentration may be quite different.

Edgar Henriksen presented a number of research projects (finalized and on-going) related to the introduction and impacts of fisheries policy on coastal regions in Norway, and plans for including Iceland and Faroe Islands in the studies. These reports are available at <https://nofima.no/en/publications/>. Titles include: "Strukturering I fiskeriflaaten" (Structure of the fishing fleet); "Strukturelle endringer i fiskeindustrien" (Structural changes in the fish processing industry) ; "Driftsundersøkelsen i fiskeindustrien" (Production surveys of the fish processing industry); and "Fisken og Folket" (The fish and the society) .

The key highlights from the work can be summarised as:

- 1) The increasing efficiency observed in many Nordic fisheries is an on-going process and is not only linked to management regimes but, more generally, to innovation as well;
- 2) There has been a reduction in the number of vessels in all vessel groups in Norwegian fisheries (and in Iceland and the Faroese Islands. Exact numbers will be presented in new studies);
- 3) Profitability has over the same period (2003 - 16) increased for all vessel segments;
- 4) While the number of fishers has decreased their average earnings have increased and now exceed average earnings in the Norwegian economy;
- 5) Across the Nordic countries only fishers in Sweden seem to fare poorly (making less, on average, than persons employed in other sectors); coastal small scale fishers makes less than crews and owners of larger vessels;
- 6) Concurrently the number of processing plants in Norway has diminished and the number of foreigners engaged in the fishing industry has increased and constitutes more than half of the workers; this has led to a concentration of landings of ground fish with more landings in Northern Norway; and
- 7) The Nordic sector is characterised by three party cooperation (state, labour unions, organizations for employers), strong collective agreements, positive attitude to new technologies and innovations and a positive attitude to globalisation supported by a strong social security system and flexible labour markets.

These characteristics of the Nordic fisheries sector make it easier to consider the introduction of market-based economic instruments. Flanking measures to address "losers" are in place and labour markets are fairly fluid which tends to ensure that redundant fishers and workers in the processing industry can be taken on in other parts of the economy. Also the general demographic developments with coastal communities losing populations to the larger cities where there are better job opportunities help to ensure a positive adjustment to new management regimes. In conclusion, it was highlighted that the overall economic policy is the main driving force for population developments on a municipality level (and NOT the specific fisheries sector policy). Therefore, the impact of the instruments applied to regulate fisheries probably have very limited effects on coastal and regional objectives. The continuous demand to increase efficiency caused by domestic and international competition pressures shape the future of the fishing industry, and this is no different than what happens in other economic sectors.

Daði Már Kristófersson presented a note on how resource rent and taxation has been handled across the Nordic countries. Iceland, Denmark, Greenland, Norway and the Faroe Islands all have some kind of fishing fee system in place. At a general level fishing fees have the potential to ensure that some or all costs of managing fisheries may be recovered from the fishing enterprises. At the same time such fees captures the resource rent to the benefit of society at large. As such it can potentially be an efficient taxation and ensure a fair distribution of rents. Across the Nordic countries there are, however, major differences in the way resource rents and their taxation are treated. This includes species covered and level of taxation with respect to space and time.

In his conclusions, Daði Már Kristófersson reiterated that resource rent taxation is here to stay. While systems differ there is still room for improvements and more rents might be generated. The Faroe Islands, Greenland and Iceland have been pioneers in introducing and running resource rent taxation and other Nordic countries are following recognising that the resource base is a common property of nations and not individual fishing enterprises.

Claire Delpuech, OECD, reviewed the results of recent OECD analysis on making reform happen for sustainable fisheries. She recalled the Sustainable Development Goal 14 (SDG 14), adopted as part of the 2030 UN Agenda for Sustainable Development which, among other things, calls for an end to overfishing and IUU fishing by 2020. In the meantime, fisheries policy makers remain confronted with important barriers to change making a transition towards sustainable and resilient fisheries a slow, and often difficult process.

Fisheries policies are often assigned multiple objectives making it challenging to achieve the central objective of sustainable fisheries. Particular interests of stakeholders, concentration of power and electoral concerns all influence the reform processes. The cost of data and information related to fisheries and the challenges of controlling activities also complicates the reform task. Against this background the OECD analysis shows that reform processes in the fisheries sector are long and iterative.

Meanwhile, with a view to improve the governance of the sector and therefore ease the fisheries reform processes a number of paths were suggested including:

- a) Improve and mobilise data and science;
- b) Bring different areas of research together to provide a more coherent view of the outcomes of reform;
- c) Improve the administrative culture and capacity of authorities to carry through reforms; and
- d) Bring to bear a whole of government approach; and
- e) improve the strategic communication and dialogue.

In conclusion, it was evident that while the Nordic countries have a long experience in fisheries sector reforms there is still a need for dialogue among likeminded countries to learn from each other's experience. In this context the present Conference and the work of the OECD's Fisheries Committee are examples of how such a continued dialogue and exchange can take place.

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In the ensuing Panel discussion which included Jeppe Høst, Hans Ellefsen, Aki Koskinen, Max Nielsen, Gunnar Haraldsson, Edgar Henriksen and Staffan Waldo a number of challenges for the fisheries management reform were raised. It was noted that we are moving from a negative to a positive

agenda in fisheries management approach, i.e. in the Nordic countries, after several years of difficulties, the use of market-based fisheries management approaches has largely been accepted. At this juncture the devil sits in details of implementation. This goes for the initial allocation of quotas to taxing of the resource rent, which are still receiving much attention in the public debate and political discourse.

It was conceded that market-based fisheries management has potential for systemic tensions which pose challenges for their future use. Such tensions arise, i. a. around the initial allocation of fishing rights (i.e. at what price, if any), on the principles for resource rent taxation (including their level and use of rents collected), whether rights are held in perpetuity, concentration of rights and on how to ensure that new fishers can have access to the fisheries. The work of the OECD analysing MBFM around property rights characteristics may help to better identify and demystify such tensions. But it remains that for some fishers the introduction of MBFM forces a shift in social relations, values, behaviour and ownership structures. Hence, their implementation needs to be well planned, transparent and accompanied by flanking measures to ensure a smooth transition.

Compared to previous management regimes characterized by their complexity, rigidity and overly bureaucratic administration Market-Based Fisheries Management (MBFM) have some definite positive sides. Meanwhile, the fisheries sector does not seem to be through much different development trajectory than other sectors of the economy. While management regimes until the 1990s were often based on biological sustainability criteria and objectives, a new phase of deregulation commenced in the 1990s which again was replaced with a public policy discourse of balancing biological, environmental, societal, and economic objectives over the past two decades. These developments have clear implications for the way the market-based instruments are accepted among fisheries stakeholders and indeed in the spheres of fisheries policy making.

It was noted that there was a call for rationalization in ALL sectors of the economy, including in the fisheries sector. Globalization, liberalization of markets and deregulations more generally, has put the various economic sectors under increased pressure to perform more efficiently. Hence the need for further rationalizations, a development that is likely to be accentuated with increased competition from aquaculture.

It was emphasized that the fisheries sector develops in line with general economy developments and that the specific fisheries policy settings may be a “weak” tool (with respect to regional developments, populations dynamics, education, etc.) compared to more general economic policies. As such it was not a surprise that the number of processing plants is decreasing. In this respect regional and educational policies were all seen as reasons for coastal communities losing populations and why, in some cases, it is increasingly difficult to recruit nationals to the fisheries sector. Hence, the increase in foreigners employed in the sector. One observer noted “And what so?” Concurrently the fisheries sector is characterized by an ageing population of fishers, i.e. there is a natural reduction in the number of fishers employed. As such the structural adjustment in the fisheries sector ascribed to the introduction of market-based instruments is supported by the general economic policies applied in the country and by general demographic developments.

There was a long discussion on the use of resource taxes across the Nordic countries where practices differ considerably. It was noted that the resource taxes in fisheries was probably not much different to other taxes; policy makers tend to tax anyway where it seem most meaningful to do so and where resistance is muted. The particularity of resource rent in fisheries is the concept of “who own the resource base?”, fishers or society?

A broader perspective on fisheries management reform as applied outside the Nordic region revealed that most countries contemplating reform often do so with multiple, often non-compatible,

objectives. Also, and this reflects the Nordic situation as well, governance can be improved through investing in better data and science, by associating different fields of research, by bringing stakeholders together and by applying a whole of government approach to fisheries management reform. Concurrently, it was clear that there is scope for a more strategic communication and dialogue when undertaking fisheries management reform.

The discussion also revealed that in some countries the complexity of the present day management systems (outside the MBFM area) and lack of transparency were major challenges in introducing reform processes. Fear, lack of understanding and poor representation often means negativity and resistance to reform rather than embracing it. In this respect it was noted that administrative authorities are always behind developments in the market place and that this means lack of steering. The sector is dynamic and is quickly adapting to new circumstances while administrations often lack necessary expertise and time to follow developments.

## **Session 2: Policy discussions, moderated by Carl-Christian Schmidt, Chair, NMTT**

The second day of the Conference consisted of a Policy Round Table. Panelists were Ingemar Berglund (Sweden), Tom-Christer Nilsen (Norway), Guy Svanback (Finland) Hans Ellefsen (Faroe Islands), Tønnes Bertelsen (Greenland), Mogens Schou (Denmark) and Daði Már Kristófersson (Iceland).

The purpose of the Policy Round Table was from a policy maker's viewpoint to highlight and exchange views on the national implementation process of fisheries reform, to discuss the challenges faced and review the national public debate on the introduction of MBFM. The following summarizes the key highlights of the Panel discussion.

There are major differences across the Nordic countries with respect to the role of the fisheries sector in the overall national economy. As such the fisheries sectors of the Faroe Island and Greenland play a far bigger role than in Denmark, Sweden, and even Iceland and Norway although for the latter two the fisheries sector has regional importance. The introduction and uptake of MBFM systems differ considerably. Meanwhile the attitude towards the use of MBFM has evolved over the past decades.

From being perceived to be negative, the national debate on the use of MBFM has matured to the point that it is now accepted as part of the fisheries management landscape. Nowadays the public debate suggests that the "devil is in the details" rather than a mere negative attitude to their use. The Panel recalled the history of fisheries policies over the past decades characterized by a top down approach and which, despite scrapping aid to help structural development of the fleet, had largely failed to guarantee profitability.

An important message from the Panel was the need to ensure that fisheries policy remains fisheries policy, i.e. not influenced and undermined by other policy domains. In this regard opting for a whole of government perspective in domestic policy development and implementation could help ensure that different policy domains support each other. Often, unfortunately, signals and therefore incentive structures work in different directions and undermine the achievement of sustainable fisheries.

With respect to the coastal fisheries communities and job opportunities the Panel recognizes that the importance attached to the issue is overstated. Seen in a historical perspective employment in all the Nordic fisheries' sectors has fallen dramatically. This has happened, and continues to happen, as societies grow richer, as labour markets are flexible and as jobs tend to be created in major towns and not in small coastal communities. Also, educational systems tend to favour land-based jobs and longer studies drawing youngsters to towns and away from remote communities. Such developments are

similar to the agricultural revolution of the past 200 years. As such the introduction of MBFM systems is just one of several developments affecting fisheries employment and coastal communities.

The Panel considered how fishers look at property/user rights in fisheries. It was observed that fishers tend to become stewards of the resource when vested with property/use rights. This is a very positive paradigm shift. Fishers evolve to take more care of the resource and take a vested interest in its future and improved accountability. Concurrently, the level of concentration of quotas in the fisheries sector is a policy problem, i.e. what is considered to be the right concentration level? Solving this conundrum and also the issue of the initial quota allocation e.g., grandfathering, auctions are highly relevant for the perception of legitimacy of the system, for fishers and for the society in general.

In summing up the debate it seems that there is no doubt that MBFM, and ITQ more specifically, are now considered an established part of the fisheries policy cookbook. The consequences of MBFM systems, unintended and intended, as outlined in the reports prepared for the Conference are to be dealt with by policy makers, ex ante, and can lead to challenging debates. The political discourse has developed in line with increasing acceptance of the use of MBFM. Meanwhile Conference participants observed that a number of issues still need further exploration and research. While MBFM systems have a positive future use it remains that detailed design issues still need to be better understood. In particular the following areas need further research:

- 1) As MBFM allows for increased earnings in the fisheries sector it also begs the question as to who is to benefit from this, i.e. individual fishers and/or society at large. Once rents are generated society may wish to benefit as well and the issues of taxation and allocation need further analysis.
- 2) This is closely linked to the initial quota allocation when MBFM are introduced either through allocation (e.g., grandfathering) or through auctions. Such differences are important in assessing resource rents and needs further illumination.
- 3) Presently, little work has been undertaken to understand the political processes (political economy perspective) of the introduction of MBFM. While the OECD is reportedly doing some analytics the Nordics have done little to describe and analyse how such processes takes place and what lessons might be shared. The Conference itself was the first of its kind in discussing these issues at length; however more research in this area is required.
- 4) While there often is a political imperative to safeguard the small-scale coastal fishing communities it remains that this area needs further elaboration. In particular, while acknowledging that small-scale communities (including coastal fishing ones) have difficulties in surviving in modern states where job and education opportunities are often concentrated in larger cities, the role and value of small-scale communities are unknown. At best little research exists on how to assess their existence and contribution, if any, to societies at large. The important point brought up by the Conference is that it is not possible to assess fishing communities only on the basis of fisheries management settings. Rather these communities, as well as alternative job opportunities, cannot be seen in isolation from other policies and general demographic trends.
- 5) Finally, the Conference also made the point that little is known as to the link between MBFM systems and (as compared to alternative management arrangements) their environmental impacts. Against the background of climate change and its impacts on fisheries, further analysis is warranted. There is an important link in this regard to fleet concentration, size of fishing vessels and gear use.