food&water watch

COMMON RESOURCES

Fishing for a Way Out

Iceland's Struggle to Dismantle Its Privatized Fishery System

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The United States and the European Union are moving toward privatizing their fisheries management systems through catch shares, while Iceland, with one of the world's oldest and most comprehensive catch share programs, is struggling to find a way to dismantle its program. Why? The answer is that catch shares have failed Iceland's fisheries and the nation as a whole.

Catch shares, which are part of the broader rush to financialize nature, have turned Iceland's fish into a speculative commodity instead of a public resource. The fisheries are controlled by wealthy "fishery landlords," and the price of quota is now susceptible to the same boom-and-bust cycle that crippled the world economy in 2008. In addition, Iceland struggles with human rights and equity concerns as many traditional fishermen and communities have been disproportionately disadvantaged by catch shares. As Iceland's parliament seeks to dismantle the quota system and return at least some of the control and benefit of fisheries to the public, the rest of the world must question its hurry to adopt a system that has so clearly failed a nation.

Privatization of Fisheries

Catch shares are a type of fishery management that privatizes fishery ownership, causing consolidation of the industry at the expense of the jobs and welfare of smaller-scale fishermen and their communities.[1] Catch shares divide the total amount of fish that can be caught in a year — called the total allowable catch, or TAC — into smaller portions, or quota. These are then given to fishermen and can be leased, bought and sold.[2]

Iceland began to experiment with catch shares in the 1980s, and in 1990 the Iceland Fisheries Management Act broadly implemented catch shares, called Individual Transferable Quotas (ITQs), for all commercial fisheries.[3] As of 2012, 25 different fisheries are controlled under ITQs, representing about 98 percent of the value of catch.[4] Iceland's quotas are assets of indefinite duration that can be divided and transferred and are subject to fees.[5] Initial quotas were allocated to fishermen and companies based on catch history.[6]

Proponents of catch shares believe that this kind of rights-based management is the solution to the world's fishery problems, and Iceland is often used as a model of a successful ITQ system.[7] But closer examination shows that catch shares have caused significant problems for Iceland. Not only have catch shares failed to restore fish stocks, but they have infringed upon the human rights of the country's citizens, hurt coastal communities and contributed to the deep economic crash of 2008 that left the entire country hurting.

Iceland's government is struggling to find ways to undo its ITQ program and return at least some control and benefit of the fisheries back to its people. As both the United States and the European Union move forward with catch share programs, it is more important than ever to learn from Iceland's attempts to transition away from them.

Eight Areas Where Catch Shares Have Failed Iceland

Public rights – The government, which maintains that fish are a public resource,[8] has struggled to extract financial benefit from fisheries for the country as a whole since catch shares were implemented.[9]

Consolidation – Quotas have accumulated in large, vertically integrated companies.[10] In 2010, the 10 largest fishing firms owned 54 percent of quota, up from 51 percent in 2008.[11]

Equity – The initial distribution of shares led to an unfair system of fishery landlords controlling access to the fishery and reaping the financial benefits from the hard work of other fishermen.[12]

Employment – Since 1990, when ITQs were expanded to the majority of the fishery, fishing and fish processing employment has decreased from 11.8 percent of the population to only 4.7 percent.[13] The fishermen who do remain in the industry are making less money because of quota leasing practices.[14]

Communities – Smaller fishing communities have "largely lost out" of any economic benefit from catch shares.[15] Quota have tended to consolidate or shift in and out of communities, leaving many with limited or uncertain access to the sea.[16] These communities have suffered further from subsequent closings of fish processing companies, a general increase in unemployment, a decrease in real estate value and a loss of total inhabitants.[17]

Sustainability – Even after 30 years of catch shares management, many regional fish stocks are in bad shape. For the 2007–08 fishing year, the quota for cod, one of Iceland's most important fish stocks, was set at its lowest level since 1922.[18] An analysis of 12 major stocks showed that, after the 2009 fishing season, Iceland's scientists recommended that 11 of the 12 stocks have significant reductions in catch, ranging from a 12 percent decrease for cod to an 81 percent decrease for halibut.[19]

Overcapacity – Despite "dramatic" reduction in the total number of boats in the fishery, the remaining boats have increased in size and engine capacity, likely resulting in an increase, not decrease, in fishing effort.[20]

Economy – Catch shares have led to speculative markets for quota that are susceptible to the same boom-and-bust cycles as stock markets. The speculative practices of Iceland's ITQ system contributed to the country's 2008 recession.[21]

Catch Shares Increased Inequality in Iceland

Iceland's catch shares have created great wealth for a few, but this wealth has come at the cost of many fishermen and their communities.[22] The initial distribution of quota created powerful individuals, nicknamed "lords of the sea," who, by controlling leasing prices and availability, dictated who was allowed to fish, how much they could catch and where they could sell it.[23] Quota trading has allowed significant consolidation in the industry, leaving large, vertically integrated companies in possession of most of the fishing quota.[24] The 18 largest fishing companies own 72 percent of the annual quota for all of Iceland's commercial fish.[25]

Meanwhile, employment in the fishing and fish processing sectors has shrunk dramatically, and the remaining fishermen are being paid less.[26] Quota have tended to consolidate in larger communities, leaving others with limited access to the sea.[27] Unlike boat owners, who receive compensation when they sell their quota, fish workers, crew members and other community residents that have long been invested in the health of a fishing community suffer when a town loses its quota through trading.[28] These towns experience higher rates of unemployment, decreased real estate prices and population attrition.[29]

ITQs were challenged twice in the Icelandic supreme court, which handed down two conflicting decisions: one saying it was unconstitutional to restrict the right to fish to vessel owners, the second saying that the government had the right to allocate ITQs to a restricted group.[30] Two fishermen then took the issue to the United Nations Human Rights Committee in 2003.[31] They alleged that the privatized system violated the International Covenant on Civil and Political Rights by forcing fishermen without quotas to pay money to a privileged group of citizens (the quota holders) in order to pursue their occupation.[32] The UNHRC ruled with the fishermen, saying that Iceland's privatized catch share market violated international law.[33] The UNHRC further ruled that the fishermen should be compensated for their losses and that the Icelandic government should address the inherent unfairness in its fisheries act.[34]

Commodity Trading on the High Seas

Fishing is an integral part of Iceland's history, culture and economy, and the industry is credited with helping Iceland to build its economic wealth in the 20th century.[35] Although the role of fishing in the economy diminished as Iceland's financial services sector rapidly expanded, fishing and fish processing still accounted for 9 percent of Iceland's GDP and 26 percent of all exports in 2009.[36]

In 2007, the Icelandic economy was booming, and fishing was part of the reason. The national Chamber of

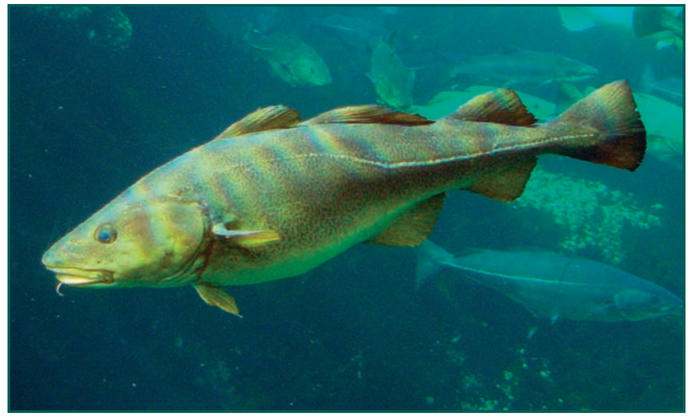
Commerce reported that the financial services sector had expanded from 1 percent to 10 percent of the economy in just a decade, and that the money came from two sources: the privatization of banks, and the privatization of fisheries.[37] The fisheries sector alone borrowed 560 billion krona ($8.38 billion or €6.37 billion), mostly for quota purchases — an amount equal to the entire national budget of the country.[38] Fishermen engaged in speculative currency trading, where they borrowed in currencies like yen and Swiss francs, used that money to purchase Icelandic krona, and then invested those krona at higher interest rates.[39]

The next year, the global financial crisis of 2008 devastated Iceland, and both the finance sector and the fishing sector were implicated in causing the deep economic pain that Icelanders called the Hrun, or downfall.[40] The three main banks collapsed and were nationalized, taxes increased 10 percent, wages fell, interest rates hit 18 percent, inflation spiked to 19 percent, the krona lost half its value and the country's banks defaulted on $28 billion (€19.9 billion).[41] The international community provided a $5 billion (€3.74 billion) bailout.[42]

In the wreckage, fishing emerged as both an economic culprit and a victim. A post-crash analysis revealed that the market prices for cod quotas mirrored the growth and collapse of the stock market bubble instead of the actual value of cod; even after the crash, these market prices have failed to normalize with the sale price of the fish.[43] Further, the use of quotas as indirect collateral for loans led to huge increases in both the total assets of fishing firms and their exposure to debt; once quota prices plummeted in the financial crisis, firms were left with the debt despite their diminished wealth.[44] Fishermen who had engaged in currency trading were left with debt on foreign currencies that were now worth much more than the krona.[45] Three years after the crash, 20 percent of Iceland's fishing companies are still technically insolvent.[46]

Despite these troubles, fishing exports still account for more than a third of Iceland's foreign income, and trade in these real products has helped Iceland weather the Hrun.[47] Fishing and fish processing have continued to be profitable even in the post-crash years[48]; however, these profits remain in a private market that benefits from closed access to a public resource—a market whose actions are responsible in part for hurting the entire Icelandic economy.

With this injustice in mind, the Icelandic government has made reforming fisheries management one of its major legislative issues, with the intent of returning the value and control of the resource to the public.[49] Steingrimer J. Sigfusson, Iceland's fisheries and economy minister, stated that the reform will "once and for all clarify that the natural resources in the water surrounding the island are the communal property of the Icelandic people" and guarantee that "quotas are utilization rights which the fishing industry pays for, but not anyone's private property."[50]



Looking for a Way Out

In 2009, the Icelandic government began developing two separate fisheries bills to implement key changes to the current ITQ system: one that would increase fishing fees in an attempt to recoup more value from fishing, and another that would reform the ITQ system to address the major issues of inequity and lack of public control.[51] In June 2012, the parliament passed the first bill, the "fishery tariff" bill, to increase fishing fees paid to the government, which is to remain in effect for at least a year.[52]

However, the bill to reform the ITQ system has once again stalled in the parliament, and the issue will not be reexamined until Fall 2012.[53] Even though the major reforms have yet to be passed, the UN Human Rights Committee concluded that Iceland had made satisfactory progress toward addressing the issues raised in the international human rights lawsuit and officially closed the case against the country.[54] Yet controversy over the bills remains fierce,[55] and Olafur Ragnar Grimsson, Iceland's president, has suggested that the fisheries reform bill may go to a national referendum.[56]

Development of the ITQ reform bill shows that the country is struggling to address many of the negative aspects of the system amid protests that any changes will send a wave of bankruptcy through the industry and impede Iceland's overall economic recovery.[57] Initial reports suggested that the government would simply begin to recall quotas,[58] but the Spring 2012 bill takes a less aggressive approach.[59] Still, the majority of the bill directly targets restoring control of the resource to the public and empowering the government to address major social problems through its fisheries management.

The legislation first reaffirms the idea that fish are a public resource that should be controlled by the government.[60] It creates a new, parallel, government-controlled market for quotas that acquires its quota by taking 3 percent of quota traded through the market. The government can then rent its quota to coastal communities or new fishermen who would otherwise be disadvantaged by the open-market system.[61]

The legislation further limits consolidation and the problem of "fishery landlords" through a 20-year sunset on quota ownership and restrictions limiting some quota transfers only to those who have fished in the previous year.[62] There will be a simple fee for all fishery participants, and a second, tiered fee that increases according to vessel size.[63] These new fees are projected to bring approximately 11 to 13 billion krona annually (about $87 million to $103 million or €65 million to €77 million), which would be distributed among the Icelandic government, local authorities and a "fisheries marketing and development fund."[64] These fees would ensure that the public and the fisheries themselves are truly benefiting from the resource.

The future of Iceland's catch share system remains unclear. The ongoing effort for reform and the internal national debate illustrate how challenging it can be to try to reacquire quota ownership once it leaves public hands. With more and more entities like the United States[65] and the European Union[66] looking to catch shares as a fisheries management solution, it is more important than ever to heed Iceland's struggles as a warning against further fisheries privatization.

Endnotes

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14 Eythórsson (1996) at 276.

15 Hersoug (2007) at 10.

16 Matthíasson (2012) at 37 to 38; National Research Council (1999) at 86.

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