

Mini Cases

The Issue of Fishing Quotas in Iceland

A Strategy Consultant was asked to suggest improvements to Iceland's fishing quota system. Nearly four decades after the individual transferable quota (ITQ) was introduced, there continued to be heated debate about the societal impact – positive and negative – of this system. The introduction of the ITQ system in 1984 transferred ownership of a public resource to a group of fishing boat owners based on the volume of their total catch in the previous three years. Virtually overnight, these ITQs conferred upon the lucky owners control, at no cost and for all time, over a valuable resource. By 2022, about 10 wealthy families controlled fishing rights for the waters around Iceland. On one hand, these same families had committed time and capital to develop these resources, employing thousands in rural Iceland. On the other hand, what had been “intended to be a short-term experiment (the ITQ system) was made permanent by the Icelandic Parliament in 1990”. Was the ITQ system fair? Was it time to reform the system?

According to an article, “Between 2020 and 2021, the total value of catch in Iceland increased around 9%, from ISK 148.3 billion [\$1.2 billion; €1.1 billion] to ISK 162.2 billion [\$1.3 billion; €1.2 billion]”⁴¹ In Iceland, 60% of the ITQs were owned by four fishing companies: Samherji, Brim, KS, and Ísfélagið. According to an article, “Brim reported profits of ISK 11.3 billion [\$88.8 million; €82.9 million] last year, and Síldarvinnslan's profits are similar. In the first three months of this year, Síldarvinnslan has made profits of nearly ISK 4 billion [\$31.4 million; €29.3 million]. Samherji, Kaupfélag Skagfirðinga (KS), and other fishing industry giants have not yet submitted financial statements from last year, but similarly high profits are expected.”⁴²

The quotas in the ITQ system could be divided and sold freely. They were permanent rights to fish a specific quantity of fish and the Total Available Catch (TAC) of each species was determined by the Ministry of Fisheries each year, based on the recommendation of the Marine Resource Institute. The general consensus was that the ITQ system had improved productivity



in the fishing industry, the quality of fish caught has increased, there had been consolidation in the industry and there were fewer fishing vessels in total. Last, owners of the ITQs could benefit from selling them.³ Exhibit 1 shows that profits in the industry rose as the number of vessels fell. Exhibit 2 indicates that the move to ITQs has resulted in a rebound in cod stocks.

One point of discontent was in how the quotas were initially allocated, and whether subsequent generations of new entrants would be disadvantaged by the need to purchase quotas. Now that the quotas had been bought and sold several times it seemed difficult to find a way to claw back any excess profits the initial vessel owners may have enjoyed. There had been a few attempts to correct any perceived unfairness the initial distribution caused.

First, the government exempted, initially, the smallest vessels (less than 10 gross registered tons) from the ITQ system. This exemption backfired when small vessels increased their share of the cod catch from 3.77% in 1984 to 35% by 1994-95. By 2004, the Ministry of Fisheries required these small boats to be part of the ITQ system.

Second, special regional quotas, distributed by the Ministry of Fisheries, were introduced in 2002 to support fishing in rural regions. While a small share of the TAC, these regional quotas came from the TAC available to other quota holders.

Third, in 2009, small vessel owners could apply for specific licenses to fish for cod using hand-line fishing methods and only during the summer months. There were catch limits and zone limits as well. One drawback of this system was that this “coastal fishery system rapidly turned into a derby-style fishery, where fishers compete to fish as much as quickly as possible, and the economic efficiency and results on the ease of entry of newcomers is questionable. This fishery is mostly carried out by seasoned fishers that had already left the industry or are still quota holders.”⁴

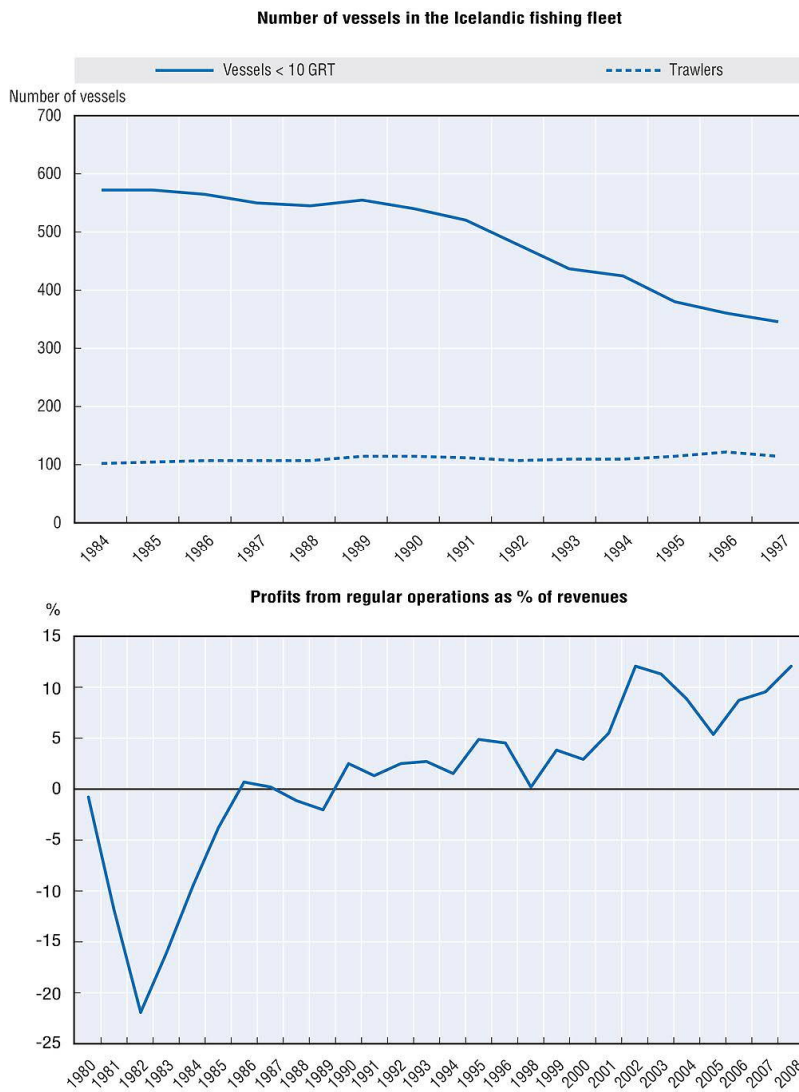
Fourth, in 2012 a resource rent tax was implemented to “remedy some of the distributional issues related to the initial free allocation of quotas.”⁵ This tax, in an attempt at fairness, took



into account the profitability of harvesting different fish species: “The tax levied on the industry amounted to ISK 12.8 billion for the fishing year 2012/13 and ISK 7.7 billion for the fishing year 2014/15.²⁴ To put this into perspective, net profits of fishing firms (EBT) amounted to ISK 14.8 billion in 2014 and total tax receipts from Icelandic firms (tax on revenue and profits) amounted to roughly ISK 58.6 billion in 2015 (Statistics Iceland, 2014; Fjársýsla ríkisins, 2016). The revenues from the resource rent tax accrue to the general government budget.”⁶

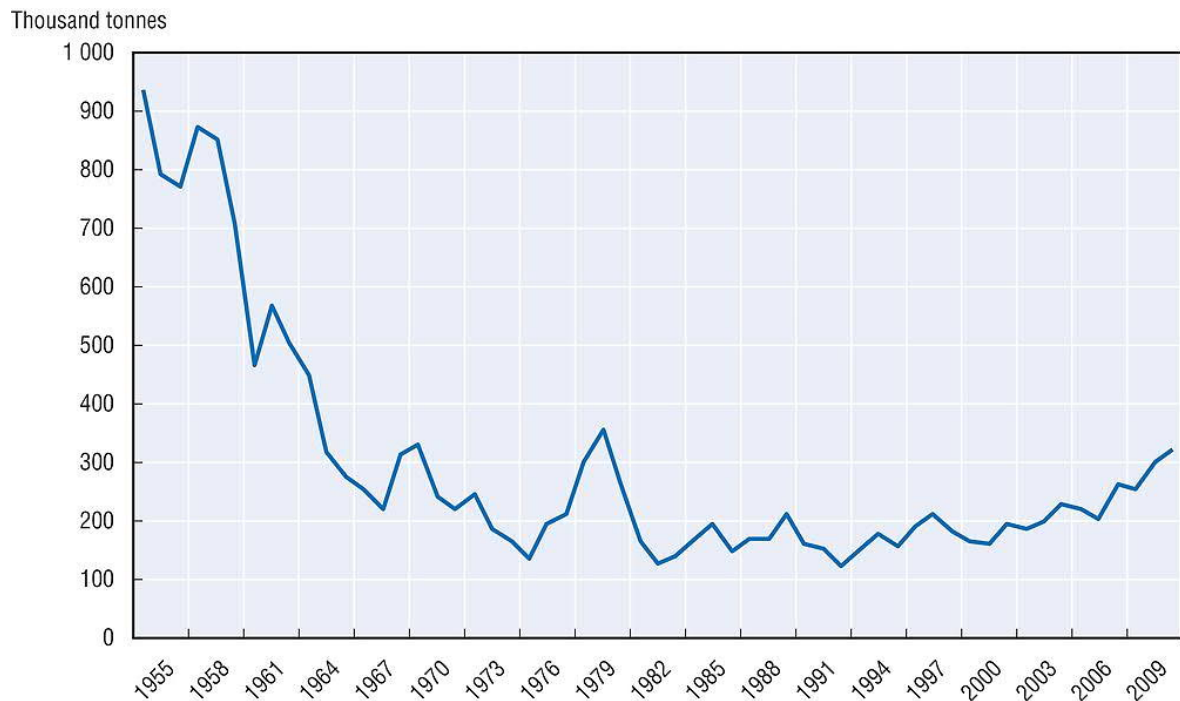
One alternative being discussed was whether ITQs should be abolished. In its place, fishing rights could be auctioned off annually, with a special allocation for rural regions and or new entrants. The Consultant looked at the current situation and wondered what to recommend.

Exhibit 1 – Consolidation of the Icelandic Fishing Fleet and the Impact on Profitability



<https://www.oecd-ilibrary.org/sites/9789264269545-10-en/index.html?itemId=/content/component/9789264269545-10-en>

Exhibit 2 – Trends in spawning stock biomass for cod



<https://www.oecd-ilibrary.org/sites/9789264269545-10-en/index.html?itemId=/content/component/9789264269545-10-en>

¹ <https://www.icelandreview.com/politics/fishing-industry-profits-spark-wealth-distribution-debate/>

² <https://www.icelandreview.com/politics/fishing-industry-profits-spark-wealth-distribution-debate/>

³ <https://www.oecd-ilibrary.org/sites/9789264269545-10-en/index.html?itemId=/content/component/9789264269545-10-en>

⁴ University Centre of the Westfjords (2010), <https://www.oecd-ilibrary.org/sites/9789264269545-10-en/index.html?itemId=/content/component/9789264269545-10-en#back-note-e-0000103>

⁵ <https://www.oecd-ilibrary.org/sites/9789264269545-10-en/index.html?itemId=/content/component/9789264269545-10-en>

⁶ <https://www.oecd-ilibrary.org/sites/9789264269545-10-en/index.html?itemId=/content/component/9789264269545-10-en>