

Mr. Jón Gunnarsson

MP and chairman of the Industrial Affairs Committee of the Icelandic parliament

Dear Mr. Gunnarsson,

I see in the Intrafish that the Icelandic government has proposed to grandfather the Icelandic Mackerel quota without using a primary auction. I understand that the fear of quota concentration is a reason the policy makers have given for this proposal.

If the auction is well organized, there is no reason for such a fear. In auctions, like in all markets, there is always active businesspersons that are seeking to create monopoly for themselves and free competition for the others, as Adam Smith wrote about in his famous book already in 1776. The government's role is to implement regulations that protect free markets against collusion and monopolist exploration. This is the role of the antitrust regulations in most countries.

The benefits from allocation of fish quotas through auctions can be obtained by good organization and regulation that protect against colluding powerful bidders whose private interests are to take control over the auction process. The Icelandic fresh fish auction is an good example of a well-organized auction that is maximizing the value of the fish landings. This market place has given Iceland a competitive advantage over Norway who has not implemented auctions for fresh codfish landings.

Fish quotas are harvesting contracts of the fish resource owned by the Icelandic people. The quota is defined as a share of the annual TAC and can last from one to ten years or more. Public auctioning of such contracts are by far the most efficient system to maximize the added value of the fish resources for the Icelandic people as owners. A good auction organizes a fair competition between the fishing companies and secures quota access for smaller innovative fishing firms. The auction price is the value the fishers are willing to pay for the quota share and is the people's share of the resource rent. The alternative is that the resource rent become collected by those who receive the quota shares for free after the grandfather principles with a right to sell the quotas to other private in an ITQ system.

The main regulatory instrument is governmental issued licenses that gives the fish boat owners the right to bid in the quota auction rather than the proposed direct allocation of a share of the TAC. The government can thus decide rules for who are given access to the auction, for example to divide the TAC for auction into lots targeting favored groups, after vessel sizes, regions, recruitment etc. The smaller companies' access to the auction can also be eased by giving credit on the payment of the purchased quota until the harvested fish is actually sold. This will even out the market power between the smaller and bigger companies.

I have been studied issues of allocation of fishing rights and fish markets in more than 30 years. I have investigated this question in Norway, Chile and Faroe Island. I published in 2004 a paper about such an auctioning system in Norway. I made also a report for Chile in 2010 as a background for their parliament's decision process of the new fishery law issued in 2012 that opened for auctioning parts of the fish quotas. In Faroe Island, I made a report for the Social democratic group in the Danish Folketing (2015) who is in favor of auctioning fish quotas as a method to channel a bigger share of the resource rent to the people as owners. This report are now a part of the background knowledge for the Faroe discussion of how to allocate their Mackerel quotas. I have also, in 2014, given a lecture at the University of Iceland about this subject.

I willing to a further dialogue with the committee to share my further thoughts and empirical facts about this subject.

Sincerely Yours

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http://en.uit.no/om/enhet/ansatte/person?p_document_id=41300&p_dimension_id=88166