

We all want to be fishermen

Per capita income in Chile is close to US\$ 15.000, measured under PPP US\$. That means we have an income almost one third of that of developed countries. The only way to catch up with them is via consistently improving public policies more than they do in order to make the allocation of resources more efficient – competitive – and correct externalities the best way we can. There is no short cut. That means, among other things, that the state should not oblige to pressure groups when their interests move against those of the whole country. The fishery sector and its history of discretionally allocated quotas is certainly one of these cases, because of its inefficiency, the unfair wealth distribution that takes place and the damaging signaling the rest of the economy receives when condoned.

The annual fish capture – excluding aquaculture fish farming – has been moving around 3 million tons, including industrial and non industrial – “artisan shipping”- captures. Its main products are fish meal, fish oil and frozen fish on a lesser degree, with annual aggregate sales around US\$ 800 million and profit margins near 30% of them. As of today, fish meal prices double the average of the last ten year period US\$ 820 per ton, in 2010 US\$, and as it happens with all commodities, its prices show ample variations.

The members of the Chilean fishing industry have at present time contracts with the Chilean state that are due in 2012 and that allocate them individual quotas and determine fees for the right to fish in its seas. These contracts, controversially originated almost a decade ago, did in fact close the fishing industry to any third party that might have wanted to enter into it, unless it went through the incumbents’ rights at a price higher than the competitive one. The interest of the fishing lobby group is to extend these rights beyond 2012 without a bidding process. To avoid giving a blessing to such an inefficient and discretionary petition, that might be easily replicable and damaging in other economic sectors - why not us? -, we could better think about the following elements to be part of a stable and long term fish allocation system:

1. There are three main interests involved: those of the fish biomass and its long term exploitation, those of anyone who might want to exploit it without compromising others’ fish rights and those of the Chilean State in the collection of fees for fish quota rights and taxes.
2. Assuming the individual transferable quota system efficiently protects and exploits the fish biomass, fish quotas would be determined for an economically reasonable 20 year period and every year 5% of the Chilean global fish quota - equivalent today to a capture of 150.000 tons per year - would be up for a bidding process and entirely allocated to the highest offer. A revolving 20 year competitive industry would take form and individual quotas would be now effectively tradable and compatible with the economic life of plants and fishing boats, along with a scale and geographical concentration rationality. As for a faster transition period, in the first year 20, 19, 18, 17 and 16 year fishing quotas, equivalent to 25% of the global quota, could be set for auction and allocated to the highest bidders in each period quota case.

3. The highest offered price – in US\$ per fish ton - annually determined for the right to fish a 5% quota on a 20 year contract would also be the price to be paid by all old incumbent ones who could be gradually replaced by new ones. The minimum bidding price would be equivalent to what the industry today pays to the State in fees for the right to capture each ton of fish.
4. The “non industrial sector” – in 2008 it captured fish tons equivalent to 85% of the so called “industrial sector” -, would have to be redefined, keeping its meaning only for a discretionary small quota for the aggregate of small firms along the Chilean coast that are really non industrial, generate local jobs and have no reasonable possibilities to participate in the quota bidding process. These small firms could supply their fish to the big industrial ones under previously known conditions or sell to others in the feed processing chain. They would continue being exempted from paying for the right to fish.
5. The bidding process would be open for everybody and clearly state that any anticompetitive act, most importantly collusive agreements, would not only entail a relevant fine under Chilean antitrust laws but also the automatic extinction of the individual quotas belonging to those involved in it. These quotas would then be offered under an equivalent bidding mechanism to the market as it would also be the case with unexploited ones.
6. The bidding process would not depend on any approval coming from the incumbent fishery firms and would be an automatic, transparent and perfectly predictable process.

In other words, a continuous bidding process as defined above would create the incentives for long term investments and fish biomass exploitation and at the same time maximize the fees and taxes to be collected by the Chilean state under a competitive scenario. Normal investment returns, adjusted for risk, would be expected for the fishing business and no unnecessary wealth transfers would again take place. Incumbents would start paying bid based prices to continue in the business and no rents would be left over.

And last but not least, the signaling to economic agents would be clear: as a policy, no interest group would be allowed to subordinate the interest of the whole country to his. Even if it were alleged that the high seas fishing industry is relatively small in terms of economic numbers, it must be recognized that it is quite important in terms of who participate in it and try to explain what is really unexplainable. In other words, the big issue lies more in the profound meaning of accepting the no bidding mechanism rationale from presumed free marketers than in the amounts themselves. However, both need to be dealt with and for that purpose there are many who would like to be fishermen under competitive rules.

Manuel Cruzat Valdés

Santiago, Chile

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