ADDITIONAL CORRESPONDENCE

Emailed Correspondence received June 5, 2013 from Richard Allen

Original Message-----
From: Richard Allen [mailto:rballen63@gmail.com]
Sent: Wednesday, June 05, 2013 1:46 PM
To: Rachel Feeney
Subject: Accumulation Limits

RECEIVED
JUN - 5 2013
NEW ENGLAND FISHERY MANAGEMENT COUNCIL

Dear Rachel,

I'm happy to see that the Groundfish Committee may be revising the goals and objectives for Amendment 18. Goal 4 currently reads: "Prohibit any person from acquiring excessive access to the resource, through in order to prevent extraction of disproportionate economic rents from other permits holders."
That goal, in particular, may benefit from further discussion and definition.

Goal 4 reflects a concern that Entity A might be able to profit off other entities if Entity A holds a sufficient % of the ACE for "choke" stocks (with low ACLs) to be able to control the price of the choke stock ACE. This raises the question of how a monopolist benefits from his market power.
Monopolists can't simply set any price that they want for their product.
Monopolists face a demand curve that determines the price that buyers will pay for a certain total supply. The way monopolists use their market power is by withholding product from the market, thereby selling a reduced amount at a higher price. That only works if the price goes up more than the quantity goes down. In the case of "choke stocks," it is the fishery management system that is restricting the supply and causing the price to go up. It isn't clear whether it would be in a monopolist's best interests to keep his already scarce ACE off the lease market in the hope of getting a higher price and higher total revenue.

The issue with choke stocks is not that those who control them will be able to charge more than they are worth, or charge so much that their potential lessees all go out of business. Markets require buyers and sellers. The lease price for choke stocks will be determined by those willing to pay for them as much as it is by those who have them to lease out. We would expect the market to top out at a price that will leave those who pay the lease cost with a normal profit, if the market is competitive and the people in it are rational. If people would lose money at a certain lease price, we would expect them not to lease. They might lose money on the choke stock, but make money on the other stocks that they can land with it. The businesses that can make a normal profit after paying the lease costs will be the most efficient harvesters. As the cost of scarce input resources rise, we would expect the less efficient harvesters to drop out of the market, regardless of whether the scarce input is fuel or ACE.

It may be that there simply isn't enough of a choke stock to allow the full utilization of other stocks with which the choke stocks are caught. In that case, we would expect those who hold the choke stocks to collect all of the economic rent from the fishery that needs the choke stock, leaving those who harvest the fishery with normal profits but no economic rent. The difference between normal profits and economic rent is critically important to the deliberations on Goal 4. In the absence of property rights in fisheries, all of the potential resource rent was dissipated in overcapitalization and redundant costs, so no one except economists ever thought about the difference between normal profits and economic rent. Now that we have a system of management that is expected to generate economic rent, it important for everyone to recognize that economic rent represents profits over and above normal profits. Economic rent is also called "net social surplus," because it represents the difference between the value of resources consumed in production and the value of the production. Economic rent in a fishery therefore represents the net benefit to society from harvesting the resource. Rules that reduce economic rent because of concerns about who collects it would reduce the net benefits to the Nation from our fisheries.

The extraction of economic rent by those who happen to hold allocations for choke stocks will happen naturally as the result of the choke stock being scarce and valuable for its ability to enable the harvest of other stocks.
This extraction of economic rent will not result from excessive shares or from misdeeds on the part of those who control the choke stock. It is hard to imagine how any practical accumulation limit would address concerns about disproportionate extraction of economic rent, unless choke stocks were distributed among permit holders in proportion to the PSC for target stocks.

If the Council objects to the fact that economic rent will accrue disproportionately to the holders of choke stocks, it is unlikely that accumulation limits will address this concern. That being the case, it may be worth looking at alternative approaches that would address the concern. I met recently with representatives of Compass Lexecon, a consulting firm that specializes in "competition policy" and is one of the leading antitrust economics firms in the world. They were very interested in the issues raised by groundfish quota trading and threw out multiple suggestions for dealing with the concerns expressed in Goal 4. Their experience with similar concerns in other industries gives them a broad perspective on which to draw. I think their input could really help the Council to address these concerns in a rational way. I contacted them because they were hired by NMFS and the Mid-Atlantic Council to write a report on accumulation limits in the surf clam and ocean quahog fishery. I found their report to be educational as well as technically sound. I believe that kind of knowledgeable, independent input would be helpful to the New England Council's deliberations on accumulation limits.

Please distribute this message to members of the Groundfish Advisory Panel and the Groundfish Committee.

Thank you.

Dick Allen
www.FisheryConsulting.com

"The highest take is not necessarily the best. The take should be increased only as long as the extra cost is offset by the added revenue from sales."
A. G. Huntsman 1949

Email Received June 6, 2013 from Brian and Tracy Pearce

From: Brian & Tracy Pearce [mailto:TPEARCE@MAINE.RR.COM]
Sent: Thursday, June 06, 2013 2:18 PM
To: Rachel Feeney
Subject: comments for Groundfish committee meeting on 6/12

Groundfish Committee Chairman Terry Stockwell and the Groundfish Committee:
I would like to attest to what is happening in the groundfish industry specific to high cost of leasing and consolidation. Please consider these comments in your work on Amendment 18.

Many people are choosing to forego fishing and there are no new entrants, who might offer new and resourceful ideas, due to the high cost associated with leasing quota of select species. Last year some of these species were not even used to their full capacity. This issue is not new with catch shares but New England could be the region to exemplify how the system can work effectively. Lease prices are inflated and leasers need guidance on appropriate leasing rates.

One suggestion might be to limit the price of leasing to a fraction of the average revenue of that species from the previous fishing year, coupled with a minimum amount to lease out per quarter of the fishing year. Right now leasing is a free for all, with no policy or regulation prohibiting leasers from charging exorbitant rates. The lack of oversight is costing owners, the crew and the fish stocks, for no other reason than leasers to profit off quota that is not even owned by them (it is federally owned).

In Amendment 18 scoping the obvious issue to fix is capping how much any one group, sector or individual can acquire or lease in. Additionally, cap the cost leasers can charge for both the selling and leasing out.

Another problem plaguing fishing businesses, again not new in an *ITQ* system, is that there is no plan to change the quota assignments from how they were set years ago. I ask that you formulate a plan to reassign quota to permits that are catching the fish, with the only exception being groups or individuals that are leasing out quota with a proven business plan is to help the environment or fishing industry.

Thank you for your attention to these critical groundfish issues.

Brian Pearce
F/V Danny Boy