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Corporate concentration and processor control: Insights from the salmon and herring fisheries in British Columbia

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ABSTRACT

Distribution and associated concentration of access rights are critically important in assessing the functioning and benefits of a fishery, and understanding who controls access to fisheries is therefore of ever increasing importance. There is a growing dependence on market-based approaches that in turn rely on healthy, functioning markets to achieve economic outcomes. As well, social goals of equity and fairness in fisheries have re-emerged as priorities alongside the goals of ecological sustainability and economic efficiency. This study aims to address the past and present state of the concentration of fishing licenses in British Columbia's salmon and herring fisheries. Fisheries administrative data from federal and provincial data sets were mined to develop a timeline of fisheries ownership and control over a twenty-year period. Hidden corporate ownership of licenses through subsidiaries was identified and comprehensive criteria were co-identified with industry representatives to characterize the various user groups of fisheries licenses. Our analysis suggests that from 1993 to 2012, there was a notable shift in the ownership profile of salmon and herring licenses, with a marked increase in concentration of licenses owned by fish processors.

1. Introduction

1.1. The role of competition

Healthy competition within the marketplace is a fundamental principle of market-based systems. Competition laws exist in many jurisdictions to guard against the creation of cartels or monopolies by corporations [1]. Where resources and associated power are concentrated into fewer and fewer hands, the potential for market manipulation and resulting market failures are a concern for legislators, producers and consumers [2,3]. Limits on corporate concentration are intended to uphold the principle of a healthy market-based economy. In general, most market-based systems enforce prohibitions on cartels and monopolies. Exceptions to this prohibition exist, for example, where there is a high cost of infrastructure and/or to ensure the supply of basic services (e.g., energy, water) and/or where there is a strong economic rationale (e.g., that the gains in efficiency offset the anti-competitive effects of a merger) [4]. However, there is typically a burden of proof that must be established with respect to balancing efficiency gains against the negative impacts on competition. While dominant firms are able to exist legally, it is the abuse of market power that may put them in violation of competition regulations [5,6].

In fisheries, it has been the norm to hold up a model of a sole owner as the ideal [7–10]. The sole owner model was promoted mainly to ensure economic efficiency by maximizing discounted economic rents [11]. "Rent" in this case refers to payments to the resource owner above and beyond what is required in the factors of production [12], and competition is treated negatively by those promoting a sole owner model on the basis that it will lead to the dissipation of rent [11]. The sole owner model is intrinsically linked to the privatization of the resource, which has been promoted as the means to prevent overharvesting [7,8,13–15] – a narrative that persists despite evidence to the contrary [16–18]. In this milieu, competition within the fisheries system has been overwhelmingly negatively viewed [7–10,19,11], with the assessment and consideration of the role and state of competition being largely truncated. The growing dominance of market-based approaches to fisheries management (e.g., individual transferable quotas) invites a reassessment of the role of competition within fisheries.

1.2. Social justice, equity and fairness

While the importance of competition to healthy market-based economies has long been recognized in avoiding the social costs

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associated with monopolies, it is only in more recent years that the impact of these excessive concentrations of wealth has been noted to be detrimental to overall societal economic prosperity, in addition to the more generally recognized social justice considerations. The issue of fairness and equity has received considerable global attention in recent years as the divide between the world's wealthiest and poorest has widened markedly (for example, see the Special Issue in Science 2014[2]), with continued impacts on the economy [20], social welfare [21], health and safety [22,23], and governance [24,25]. Issues of equity and fairness even spill over into natural resource conservation outcomes [26]. Within fisheries, the shift to market mechanisms in the absence of restrictions on ownership has enabled increased concentration of access rights in the hands of investors and corporations. There has been a resulting increase in the attention paid to distribution of ownership and benefits from fisheries [27,28].

1.3. The role of processors, and the supply chain structure of BC fisheries

In jurisdictions where fisheries access rights ownership is not restricted to fishermen, it is important to consider the nature of the supply chain, and how this intersects with the categories of fisheries access owners. The supply chain can take on a number of variants (Fig. 1), from sales of fish directly from the fisherman to the retailer (e.g., fish store or restaurant) or consumer (e.g., dockside fish sales) or through a more circuitous route through intermediaries including buyers, fish processors, and distributors. Which path is taken is dependent on a number of factors, including the type of fish product being sold (e.g., whole fish versus canned or smoked fish) as well as the extent to which the fisherman lacks control over their product (e.g., through processor or investor ownership of access rights or some other control arrangement). There can be many arrangements between the fisher and the buyer, ranging from no involvement other than delivering catch, to joint ownership, conditional sales agreements, and fishing contracts [29]. Vertical integration is an important consideration with the buyer, processor and distributor functions frequently bundled within a single company. Retailers and fisherman functions can also be included in a fully vertically integrated company. Furthermore, each stage can represent a pinch point whereby even when earlier stages are not highly concentrated, concentration later in the supply chain can exert pressures on the earlier or later stages.

Processors participate in the fishery, not only by providing the infrastructure and means for the catch to be turned into a marketable product, but by securing their supply through ownership of the licenses and vessels used in the harvesting of fish from the water. Processors can play a vital role in fisheries such as salmon, due to the high variability in supply from year to year and limited season of fishing [30], but this may also place the processors in a dominant position when fishers try to unload a highly perishable product in a short season.

1.4. How much concentration is too much?

There are a number of metrics that have been developed to assess the degree of concentration in an industry (e.g., Four Firm Concentration Ratio (CR4), Herfindahl–Hirschman Index (HHI)). However, there is no one established standard at which it can be definitively said that there is too much concentration. The threshold at which the level of concentration becomes detrimental can vary from industry to industry, and even on a case-by-case situation. As well, there are benefits to concentration (e.g., economies of scale, stability) that in some cases may be beneficial. The point at which the benefits of concentration are outweighed by the detrimental effects is not so simple to ascertain, and often the questionable cases go before an anti-trust or competition bureau for investigation.

2. Background on the British Columbia fisheries

2.1. Concentration of fisheries ownership in BC

The common property nature of the fisheries resource in Canada has long complicated the allocation of access rights and has informed opinions on the appropriate distribution of benefits from fisheries. The federal government, as stewards of the resource for the people of Canada, has a mandate to safeguard the interests of Canadians in managing the fishery [31,32]. The importance of economic benefits to adjacent communities, maintenance of a small boat independent fleets, and distributed benefits amongst participants are entrenched in legislation [33], policy, and practice [34–36].

The purpose of this research is to examine how ownership and control over access rights in the economically and culturally important BC salmon (*Oncorhynchus* spp.) and herring (*Clupea pallasii*) fisheries have changed over the past decades, and to consider the nature and implications of those changes. The expanding use of fisheries management systems in Canada and elsewhere that are market-based (e.g., individual transferable quotas), including a proposal to institute this method of management in the salmon fishery with pilots already underway, demands consideration of the ownership profile and how such systems would be expected to function should they be implemented. This is especially relevant given the extensive literature citing concentration and distribution issues and impacts in market-based approaches [17,27,37–42].

2.2. The salmon fishery

In September 1968, the modern-day limited entry program was introduced in the BC salmon fishery, with 5870 "A" class salmon licenses[3] issued [43,44] as a response to the overcapacity in the fishery that was recognized by management and participants [45]. While resource conservation was an objective, the primary objective was to "promote a strong and economically viable fishery … to ensure that its exploiters and its ultimate owners (the people of Canada) obtain maximum benefit from it" [44]. There was considerable opposition to the program and concerns raised about the structure of the program, including assigning licenses to vessels rather than to individual fishers [46]. The United Fishermen and Allied Workers Union (UFAWU) primary concern was that the program would increase the power of the big companies [44]. In response, a freeze was placed on company ownership of the "A" class licenses, fixing company ownership to numbers as of April 3, 1969 [44], equivalent to 12% of the "A" licensed vessels [47,48]. This cap was maintained despite the reduction in the size of the fleet, with 7% of the "A" licenses removed from the fishery through a license buyback between 1971 and 1973. Each year, the Minister of Fisheries and Oceans would assess each processing company's holdings of the fleet, and use "moral suasion" to require them to divest vessels to remain within their cap [49]. In 1976, processing companies directly owned 567 of the remaining 4588 "A" licenses,

[2] ⟨http://www.sciencemag.org/site/special/inequality/⟩ (last accessed on Oct 25, 2015).

[3] While described as salmon licenses, these licenses could also be used to fish other species such as groundfish.