Limited entry study raises questions

by Norman Stadem
for the *Tundra Times*

Why has the prohibition on using limited entry permits as collateral worked to the disadvantage of rural Alaskans?

There are no easy, readily available answers. There is, however, considerable evidence which supports the argument for relaxing the restriction on using them as collateral — at least for purchasing the permit itself.

Like so much of well intended, protectionist legislation, the protectionist goal for the restriction has backfired — in this case on rural Alaskans.

The primary reason for this is that rural Alaskans do not have the same access to conventional capital markets as do their urban counterparts. Essentially, they do not have the same opportunity to borrow from banks or other financing institutions — often because they are not able to meet the institutional requirements.

A report by the Commercial Fisheries Entry Commission in June gives the most recent statistics and information on the limited entry program.

In studying this comprehensive report, one learns that although Alaskans have owned the large proportion in number of permits, they have owned and continue to own a lower proportion of the higher valued permits than do non-Alaskans. For example, at the end of 1986, Alaskans owned 79.5 percent of the permits, but only 69.6 percent of the market value of these permits.

	Proportion of total permits	Proportion of total value of permits
Initial Issue:		
All Alaskans	81.7 percent	71.4 percent
Non-Alaskans	18.3 percent	28.6 percent
As of the end of 1986:	79.5 percent	69.6 percent
All Alaskans	20.5 percent	30.4 percent
Non-Alaskans		
	-2.2 percent	-1.8 percent
Net change in proportions:	2.2 percent	1.8 percent
All Alaskans		
Non-Alaskans		

Since fishing is central to most rural Alaskan cultures, rural lifestyles will change dramatically if the past trend in transfer of permits from rural ownership continues. The Commercial Fisheries Entry Commission report shows that during the period of 1975 to 1986, 1,520 permits were transferred by Alaska Rural Locals. They are Alaska residents of a rural community which is local to the fishery for which the permit applies.

Forty-four percent — 671 permits — of the total 1,520 were transferred out of rural local ownership.

In Bristol Bay, with the highest volume of permit transfer, 145 (68 percent) of the 214 set net permits were transferred from Alaska Rural Local ownership.

Seventy-four (35 percent) of the 210 Bristol Bay drift permits were transferred from Alaska Rural Local ownership.

Among the six fisheries of the Arctic-Yukon-Kuskokwim Area, 86 (53 percent) of the 163 transfers went to non-local ownership.

The ability to freely transfer permits in the market implies tha buyers must have access to capital funds. According to the Commercial Fisheries Entry Commission report, there are three main sources:

•47.7 percent, self-financing by the buyer.

•32.9 percent, institutional financing, such as banks or the state.

•15.7 percent, seller financing.

•3.7 percent, other sources including processor financing.

Self-financing seems to be the predominant source of capital for the low valued fisheries, which are those with low permit prices. This seems to be especially true for the remote, rural fisheries of the Arctic-Yukon-Kuskokwim Area.

It becomes obvious, however, that as permit prices go up, other sources of capital funding are required. The state data show a positive relationship between institutional sources of financing and increasing permit prices — as high as 56.3 percent for the Chignik seine fishery where the average permit price in 1984 was $322,500.

And yet, as was pointed out earlier, access to institutional sources of finance is a problem for many rural residents.

Financing by sellers shows a mixed bag in terms of relationship to permit prices. The highest rate of seller financing was 43.5 percent in the Prince William Sound set net fishery where the average 1985 permit price was $32,375. The risk associated with seller financing, unless the buyer provides other collateral, suggests that this form of financing is limited to immediate family or extremely close friends.

Seller financing could be an important option in rural communities. The risks associated with seller financing under present laws, and advantages to rural communities if seller financing could be a safe option, will be discussed further in the second part of this series.

Editor's Note: This is the first of a three-part series by Norman Stadem, economist with Bio Economic Research & Analysis. He is vice president of the Alaska Independent Fishermen's Marketing Association and secretary/treasurer of the United Fishermen of Alaska.