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Equipping the Organization

Drivers of Quota Value

By the end of this lesson you will be able to:

Develop an understanding of the key drivers of quota value to support your quota acquisition strategies.

What are the key drivers of quota value and prices?

Quota prices are usually expressed in $/pound. The price of quota is driven by buyers' and sellers' beliefs about how much can be earned through ownership of the quota. This may include profits earned by fishermen catching the quota or profits earned by leasing the quota. Participants may have different opinions about quota value because they can have different timelines for staying in the market, different profit margins based on their vessel operations, and different levels of willingness to take risk.

What factors tend to drive quota prices higher?

- Expectations of future increases to ex-vessel or market prices.
- Expectations of biomass increase and the quota increases that result from that.
- Expectations of improvements to vessel efficiency.
- Expectations of improved quota stability from year to year.
- Expectations of regulatory changes that will benefit fishing businesses and markets.
- Expectations of higher quota lease prices.
- Availability of cheaper debt.
- If the stock in question is a 'choke' species, which links its value to other species.
- Concentration of ownership or processor control of quota shares.

What factors tend to drive quota prices lower?

- Expectations of future decreases to ex-vessel or market prices.
- Expectations of biomass decrease and the quota decreases that result from that.
- Expectations of decreases in vessel efficiency.
- Expectations of quota volatility from year to year.
- Expectations of regulatory changes that will constrain fishing businesses and markets.
- Expectations of lower quota lease prices.
- The decision by a wave of market participants to exit the fishery, 'flooding' the market with sellers.
- Setting quotas at exceptionally high levels that the fleet has no confidence in catching.

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Why do quota values sometimes seem to drift higher than is justified by the income they produce?

So-called 'mission critical' quotas often price at unexpectedly high levels because market participants understand there are scarce opportunities to purchase them. This often happens in quota systems where it's hard to find quota to buy (called "illiquid markets"). In addition, most quota systems start out by "grandfathering" quota to the existing participants, giving them quota for free (meaning they don't have a "cost basis"). Because this first generation of participants starts out with a free block of quota, when they purchase more quota, the average price they paid for all of their quota is lower than that paid by people who weren't grandfathered in. This dramatically improves the profit margin for grandfathered businesses and allows them to bid higher prices for quota than new entrants to the fishery.

What types of data will help me to properly value quota?

The following data are important in the valuation of quota and in the determination of acceptable prices. Not all data will be available in every fishery.

- 10-year or longer historical ex vessel pricing data and projections
- 10-year or longer historical lease prices per pound and projections
- 10-year historical ratio of lease prices to ex vessel prices
- 10-year historical stock assessments, rebuilding projections, quota levels and projections
- History of fishery regulations and an understanding of current action items and potential regulatory changes
- Information on what types of owners hold quota, at what general cost basis, and in what amounts/concentrations
- Local bank financing rates that for quota transactions
- 10-year historical quota prices per pound
- A list of comparable recent transactions with volumes and prices per pound

So how do I analyze this data to find a price or to calculate future returns?

If you'd like help building a pricing and cash flow model that brings these factors together, contact Catch Together.

Exercise: Now that you know the general drivers of value for quota, what do you think the key drivers of value are in your fishery? What are the best case future value assumptions and what are the worst case assumptions?