Access Market: "Macro Perspective"

Stuart Nelson, Nelson Bros Fisheries Ltd

Campbell River CFE
Networking Forum

November, 2016

What is the "Macro Perspective?"

- Marine CFEs are highly "access driven" – need/want more
- What are prospects for getting more?
- Big picture, over long term
- Snapshots, recent trends, outlook

The "universe" of access

Fishery Grouping	Fishery / # licences or lbs of quota)	Licence Designation
Salmon	Seine	AS
	Gillnet	AG
	Troll	AT
Pelagics	Herring - Roe Seine	HS
	Herring - Roe Gillnet	HG
	Herring - Spawn on Kelp	J
	Tuna	USA 68
	Sardine	ZS
Groundfish	Halibut	L
	Halibut quota	
	Sablefish	K
	Sablefish quota	
	Groundfish Trawl	T
	Groundfish trawl quota	
	Hake quota	
	Rockfish Inside	ZN
	Rockfish Outside	ZN
	Lingcod Hook & Line quota	
	Dogfish Hook & Line quota	
Shellfish	Prawn	W
	Crab	R
	Shrimp	S
	Geoduck	G
	Geoduck quota block	
	Sea Cucumber	ZD
	Red Sea Urchin	ZC
	Green Sea Urchin	ZA
	Euphausiid	ZF
Schedule II	Schedule II Species	C

Side note:
Inland CFEs… limited to one or two species of salmon vs. wide range of opportunities for Marine CFEs

Access Profile

- General category and F category (communal commercial)
- F category is great, since it's in the CFEs hands
  - How much, specifically?
- But once it's F category it's off the market forever
- More Fs = smaller pool of general category access to draw upon

Fishery Grouping	Fishery / # licences or lbs of quota)	Licence Designation	# General Category Units of Access 2015	# F Units of Access 2015	Total Units	F Units %
Salmon	Seine	AS	210	66	276	24%
	Gillnet	AG	818	330	1,148	29%
	Troll	AT	350	84	434	19%
Pelagics	Herring - Roe Seine	HS	241	11	252	4%
	Herring - Roe Gillnet	HG	999	268	1,267	21%
	Herring - Spawn on Kelp	J	34	12	46	26%
	Tuna	USA 68	-	-	-	0%
	Sardine	ZS	25	25	50	50%
Groundfish	Halibut	L	343	92	435	21%
	Halibut quota		4,910,196	1,064,270	5,974,466	18%
	Sablefish	K	41	7	48	15%
	Sablefish quota		2,332,278	300,000	2,632,278	11%
	Groundfish Trawl	T	135	4	139	3%
	Groundfish trawl quota		93,000,000	2,000,000	95,000,000	2%
	Hake quota		217,000,000	500,000	217,500,000	0%
	Rockfish Inside	ZN	54	19	73	26%
	Rockfish Outside	ZN	158	30	188	16%
	Lingcod Hook & Line quota		2,574,973	200,000	2,774,973	7%
	Dogfish Hook & Line quota		20,987,792	500,000	21,487,792	2%
Shellfish	Prawn	W	193	57	250	23%
	Crab	R	189	32	221	14%
	Shrimp	S	215	23	238	10%
	Geoduck	G	50	5	55	9%
	Geoduck quota block		500	50	550	9%
	Sea Cucumber	ZD	84	1	85	1%
	Red Sea Urchin	ZC	80	30	110	27%
	Green Sea Urchin	ZA	48	1	49	2%
	Euphausiid	ZF	16	1	17	6%
Schedule II	Schedule II Species	C	367	14	381	4%

Fishery Grouping	Fishery / # licences or lbs of quota)	Licence Designation	General Category Unit Value	General Cateogry Aggregate Value	Implied Value F Catogory Access	Implied Total Access Value	F Category % Value
Salmon	Seine	AS	418,571	87,899,910	27,625,686	115,525,596	24%
	Gillnet	AG	54,315	44,429,670	17,923,950	62,353,620	29%
	Troll	AT	124,714	43,649,900	10,475,976	54,125,876	19%
Pelagics	Herring - Roe Seine	HS	49,025	11,815,025	539,275	12,354,300	4%
	Herring - Roe Gillnet	HG	23,734	23,710,266	6,360,712	30,070,978	21%
	Herring - Spawn on Kelp	J	175,000	5,950,000	2,100,000	8,050,000	26%
	Tuna	USA 68	n/a	-	-	-	0%
	Sardine	ZS	n/a	-	-	-	0%
Groundfish	Halibut	L	42,800	14,680,400	3,937,600	18,618,000	21%
	Halibut quota		74.00	363,354,504	78,755,980	442,110,484	18%
	Sablefish	K	250,000	10,250,000	1,750,000	12,000,000	15%
	Sablefish quota		55.00	128,275,290	16,500,000	144,775,290	11%
	Groundfish Trawl	T	57,960	7,824,600	231,840	8,056,440	3%
	Groundfish trawl quota		1.60	148,800,000	3,200,000	152,000,000	2%
	Hake quota		0.30	65,100,000	150,000	65,250,000	0%
	Rockfish Inside	ZN	35,000	1,890,000	665,000	2,555,000	26%
	Rockfish Outside	ZN	175,000	27,650,000	5,250,000	32,900,000	16%
	Lingcod Hook & Line quota		8.00	20,599,784	1,600,000	22,199,784	7%
	Dogfish Hook & Line quota		0.08	1,679,023	40,000	1,719,023	2%
Shellfish	Prawn	W	734,000	141,662,000	41,838,000	183,500,000	23%
	Crab	R	713,000	134,757,000	22,816,000	157,573,000	14%
	Shrimp	S	41,900	9,008,500	963,700	9,972,200	10%
	Geoduck	G	250,000	12,500,000	1,250,000	13,750,000	9%
	Geoduck quota block		550,000	275,000,000	27,500,000	302,500,000	9%
	Sea Cucumber	ZD	750,000	63,000,000	750,000	63,750,000	1%
	Red Sea Urchin	ZC	60,000	4,800,000	1,800,000	6,600,000	27%
	Green Sea Urchin	ZA	30,000	1,440,000	30,000	1,470,000	2%
	Euphausiid	ZF	40,000	640,000	40,000	680,000	6%
Schedule II	Schedule II Species	C	10,200	3,743,400	142,800	3,886,200	4%
				1,654,109,272	274,836,519	1,928,945,791	14%

Current Snapshot	General Category Value	F Category Value	Total Value	F Cateogry %
Salmon	175,979,480	56,025,612	232,005,092	24%
Pelagics	41,475,291	8,999,987	50,475,278	18%
Groundfish	790,103,601	112,080,420	902,184,021	12%
Shellfish	642,807,500	96,987,700	739,795,200	13%
Total	1,650,365,872	274,093,719	1,924,459,591	14%

Access value is rising… right?

- Prices rising dramatically in some categories
- They have fallen in others

- Axiom of fishing… expect the unexpected… the hierarchy of access we are accustomed to today may be much different in 5/10/15 years

			Unit Valuation				
Fishery Grouping	**Fishery / # licences or lbs of quota)**	**Licence Designation**	**2000**	**2005**	**2010**	**2015**	**% Change 2000 v 2015**
Salmon	Seine	AS	543,000	417,857	196,842	418,571	-23%
	Gillnet	AG	102,000	87,023	47,588	54,315	-47%
	Troll	AT	104,000	187,780	69,290	124,714	20%
Pelagics	Herring - Roe Seine	HS	694,000	579,116	169,758	49,025	-93%
	Herring - Roe Gillnet	HG	143,300	144,138	56,160	23,734	-83%
	Herring - Spawn on Kelp	J	850,000	500,000	275,000	175,000	-79%
	Tuna	USA 68	-	-	-	n/a	n/a
	Sardine	ZS	-	-	-	n/a	n/a
Groundfish	Halibut	L	34,500	53,380	56,680	42,800	24%
	Halibut quota		25.50	35.00	40.00	74.00	190%
	Sablefish	K	100,000	200,000	200,000	250,000	150%
	Sablefish quota		35.00	35.00	37.00	55.00	57%
	Groundfish Trawl	T	97,500	93,000	37,800	57,960	-54%
	Groundfish trawl quota		2.00	3.10	1.25	1.60	-20%
	Hake quota		0.25	0.35	0.65	0.30	20%
	Rockfish Inside	ZN	123,500	35,000	35,000	35,000	-72%
	Rockfish Outside	ZN	123,500	147,000	119,700	175,000	42%
	Lingcod Hook & Line quota		-	-	-	8.00	n/a
	Dogfish Hook & Line quota		-	-	-	0.08	n/a
Shellfish	Prawn	W	342,000	638,750	547,500	734,000	115%
	Crab	R	256,000	448,000	512,000	713,000	179%
	Shrimp	S	64,600	45,100	18,450	41,900	-35%
	Geoduck	G	3,000,000	2,500,000	3,250,000	5,750,000	92%
	Geoduck quota block		-	-	-	550,000	n/a
	Sea Cucumber	ZD	120,000	135,000	300,000	750,000	525%
	Red Sea Urchin	ZC	235,000	175,000	35,000	60,000	-74%
	Green Sea Urchin	ZA	65,000	35,000	20,000	30,000	-54%
	Euphausiid	ZF	75,000	50,000	50,000	40,000	-47%
Schedule II	Schedule II Species	C	13,600	17,000	8,500	10,200	-25%

Macro Trends in Access Market

- Relinquishment program “fatigue”
- CFEs active in market
- Asian buyers active in market (competition for CFEs)
- Access holders nearing/reaching retirement age (opportunity)
- Access, access, access…what about vessels?

Relinquishment "Fatigue"

- Since 1996:
  - Salmon licence retirement (about ½ the licences)
  - ATP
  - PICFI
  - Treaty
  - Reconciliation
  - Troll licence retirement (Salmon Commission)
- Appetite to offer piecemeal assets at values deemed by DFO to be "fair" is diminishing
- Implication: CFEs on their own in sourcing access in future

CFEs Active in Market

- BDS program currently fuelling CFE acquisitions; significant buying activity:

# Marine CFEs	20
BDS/CFE	$ 375,000
Own contribution/CFE	$75,000
Investment/CFE	$450,000
Total CFE investment/yr	$9,000,000
Five year investment (if BDS renewed)	$45,000,000

- Impact on market greater when a few categories are targeted

- CFEs likely to ramp-up own contributions in future (with or without BDS)

Asian Buyers Active in Market

- Asian buyers attracted by ease of opportunity to "purchase" Canadian resources (with no 15% tax)
- Significant transactions activity
  - Geoduck and groundfish trawl notable
- Extremely long term perspective… not worried about nickels & dimes
- Buyers able to "pull the trigger" quickly
- Strong competition for CFEs

“Greying” of Access Holders

- Lots of access is held by owner/operators approaching retirement
- Long term opportunity for CFEs to buy them out
  - Acquiring piecemeal assets unlikely to be effective
  - Target packages, or even companies
  - Larger budgets likely required
  - Got to take the vessel, too

Access… at the expense of vessels

- Long term preoccupation with access is perilous
- Vessels are:
  - Being sold out of the country (the good ones)
  - Aging (safety, efficiency, versatility)
  - Not being replaced as they should
- At some point, investment in vessels – so that the access can be fully and properly harvested – will be necessary

To ponder: how high can values go?

- Will tightening supply of access mean ever-rising prices?
- Or will access values always be linked to the underlying earnings potential of the asset?
- Is this a semi-rational market, or a completely irrational one?
- Maybe Harry Mose knows?

Halibut quota at $100/lb!

Million dollar sea cucumber licences!