

TOOLKIT 1.0

SEPT / 08

# Fisheries Licence Banks: A Start-Up Guide to Planning, Governance, Finance & Operations



**AUTHORS** / Tasha Sutcliffe, Danielle Edwards & Dan Edwards



building the conservation economy / [ecotrust.ca](http://ecotrust.ca)



# Table of contents



|               |                   |    |
|---------------|-------------------|----|
|               | Introduction..... | 3  |
| <b>STEP 1</b> | Organize.....     | 5  |
| <b>STEP 2</b> | Prioritize .....  | 7  |
| <b>STEP 3</b> | Structure.....    | 8  |
| <b>STEP 4</b> | Capitalize .....  | 9  |
| <b>STEP 5</b> | Planning.....     | 10 |
| <b>STEP 6</b> | Procedures.....   | 12 |
| <b>STEP 7</b> | Operations .....  | 14 |
|               | Resources .....   | 15 |



# Introduction

Over the last decade, small-boat fishermen have faced a “perfect storm” of government buy-back schemes, industry consolidation, vertical integration, slumping salmon prices, stricter conservation rules, soaring monitoring and quota costs, and a gale of licensing and regulatory reforms. It’s a wonder that any remained afloat.

Fisheries reform has often had unintended or ill-considered consequences: downsizing schemes, for example, have disproportionately affected rural and Aboriginal fishermen, and worsened over-capitalization in licences and quota. Overall, management changes have resulted in dramatic increases in licence access costs, shifts in ownership away from communities adjacent to marine resources, the decline of the small-boat fishing fleet, and the loss of rural infrastructure.

If there is to be a sustainable fishery in the future, there is an immediate need to put into practice new ways for fishermen to access licences and quota to ensure benefits flow back to active fishermen and into communities reliant on the resource. This start-up guide or toolkit describes a way of organizing a fisheries licence bank, and provides tips for helping existing licence banks to succeed.

A licence bank is a cooperative ownership structure that allows fishermen or communities to pool licences and quotas to achieve greater benefits than they would at the individual level. In other words, the whole is greater than the sum of its parts. A licence bank works by holding licences

and/or quota that is then leased back to members, at reduced or fair trade cost, improving the economic viability and securing access for members. This model can achieve multiple socio-economic goals for improved fisheries management as well as conservation through the promotion of sustainable fishing practices. The licence bank concept is useful for:

- Providing options to fishermen with little access to traditional forms of capital
- Helping fishermen to improve cooperation and operating efficiencies
- Maintaining small boat enterprises through combining a variety of licences/quota to meet access needs
- Spreading risk and benefits in high risk fisheries investments
- Connecting fishing enterprises to fishing dependent communities
- Supporting the development of sustainable fisheries



- Providing affordable access to future generations of fishermen

Licence banks fundamentally depend upon fishermen as integral partners. A licence bank without fishermen is just an investment company; a licence without someone to fish it is just a piece of paper. A licence bank can consist of fishermen partnering with outside investors or the fishermen themselves being majority shareholders. What is vital for all forms of fishermen involvement is that they be key decision makers, that they share in the success of the licence bank, and that they commit to a code of practice established by all partners within the licence bank.

This start-up guide or toolkit outlines key steps on how to develop a licence bank including examples drawn from the Pacific Coast Fishermen's Conservation Company (PCFCC), a licence bank founded by a group of fishermen and Ecotrust Canada. Detailed information is provided on:

- who might benefit from a licence bank and how to organize potential partners
- structure, principles, purpose, and goals
- accessing capital and developing business plans
- shareholder agreement, operational procedures, and evaluation frameworks
- getting and staying operational

This guidebook is directed at those fishermen who want a different way to work together to improve their own bottom line and the long term health of their fishery, and those organizations who want to help them get there, recognizing the interconnection between healthy economies, healthy communities and a healthy environment.

**STEP 1:**

# Organize

With the high costs of entry, unpredictable annual returns, and the necessity to put conservation first, new solutions are needed to support viable fishing enterprises. A licence bank creates an opportunity to pool risks and benefits, diversify fishing operations, and improve the viability of individual fishermen while building benefits at the local community level.

Without people to make it happen, a good idea will remain just that, a good idea. Licence banks require people to build them and to make them work; primarily fishermen who will fish the licences and quota. Depending on the objectives and capacity needs of the licence bank, there can be additional partners such as community, industry, or conservation organizations.

## WHO MIGHT BENEFIT FROM BECOMING A MEMBER IN A LICENCE BANK?

### Fishermen

Fishermen who already own a vessel and licences and have a viable business operation but want to retire may see the value of a licence bank as a means to mentor in new fishermen to take over their operations, and the licence bank as a purchaser of their assets.

Owner-operator fishermen who are struggling to maintain a viable business may look to a licence bank to diversify their fishing opportunities and access alternative financing. They can also share the risk of new investments with other fishermen and licence bank partners.

Fishermen who do not own their own vessel or licences, who are hired skippers or crew, may look to a licence bank as a means to exit the leasing cycle and to begin to have ownership over part of their business.

For fishermen who have exited the industry but want to get back in, or individuals within communities interested in becoming fish harvesters, a licence bank can be a mechanism to mentor new entrants into the occupation as well as a way for new entrants to become an owner/partner in fishing enterprises at a reasonable cost.

### Non-Fishermen Partner

Licence banks benefit from partnerships with non-fishermen members to increase the resources available to the bank and by broadening the base of support.

A coastal community may seek to build or maintain fisheries activity to achieve stable access to adjacent resources for community members and to maximise benefits at the local community level. A licence bank can be used to generate revenue for the community, to safeguard long term employment and access to adjacent fisheries resources, and to provide the community with direct input into fishing practices through a formal partnership with fishermen.

Industry associations looking to mitigate impacts of new management measures or fish stock downturns may use a licence bank approach to purchase and hold licences or quota.

Conservation organizations can benefit from licence bank partnerships which provide an avenue to directly influence fishing practices and to further the development of sustainable fisheries. Support of alternative ownership and management structures can encourage cooperation and achieve multiple social, economic, and ecological objectives.

## WHAT MEMBERSHIP SIZE WORKS?

The minimum number of fishermen needed for



starting a licence bank can be anywhere from five to ten individuals, depending on the fishery and the members. There is no maximum number, but larger groups, in excess of 30 members, have a different set of challenges from smaller licence banks. Larger organizations can be successful, benefiting from economies of scale and information sharing, but also must deal with larger scale communications, operations, and group dynamics. The benefits of larger organizations can also be accomplished by networking a number of smaller, independent groups through an umbrella organization.

#### WHAT DO LICENCE BANK MEMBERS ORGANIZE AROUND?

A licence bank can be organized around a community, a region, and/or a fishery. The key consideration is that the organization is specific enough that members are bound by a common purpose and goal, without being too limited in scope to adapt to change over the long term.

Within a given region, one challenge may be not having enough local fishermen to form a licence bank. There are many communities in BC that once depended on the fishing industry but now have very few active fishermen left. It may be more appropriate in this instance to look at alternatives such as a broader regional approach, organizing around a fishery rather than a region, or including new fishermen provided there is enough of a community of interest to do so.

#### How do you identify potential members?

A licence bank requires a group of individuals who are willing to work together. That group might already exist, or it might have to be formed. The first step is usually to contact people individ-

ually, and then hold a group meeting with invited participants or an open meeting, perhaps publicly advertised. Articles in community newspapers or industry magazines can be an effective way to increase awareness and can help in recruiting members. While it isn't necessary for all potential members to fully understand and support all aspects of the licence bank concept, there needs to be a certain level of commitment on shared goals.

#### PCFCC CASE STUDY

“Our licence bank was initiated by the efforts of a few fishermen who partnered with Ecotrust Canada. Seven active fishermen came together to develop the licence bank as it now exists based on a common fishery (spiny dogfish), a common fleet (small boat hook and line), and a common need (bycatch quota). This partnership has resulted in a real example of how this model can increase profits to fishermen, retain fishing capacity in a coastal community for future generations, and build incentives for, and adoption of, more sustainable fishing practices.”

#### CHECKLIST

- Minimum five active fishermen
- Administrative capacity
- A common purpose and goals

**STEP 2:**

# Prioritize

A licence bank organization provides the platform for increasing access to fisheries and entrenching principles such as fair trading and a code of conduct to achieve conservation and social objectives.

Once a group of fishermen and partners come together to build a licence bank, the next step is to agree upon the bank's goals, and what overarching principles will guide its activities. This will likely mean revisiting earlier steps as a core group comes together, sets priorities and seeks additional members based on their identified common purpose.

**STATEMENT OF PURPOSE**

A statement of purpose for the licence bank is a combination of a mission statement and a vision statement, articulating why the bank exists, what it does in the present, and what the bank intends to achieve in the future. The statement of purpose will guide strategic planning, influencing decision making and the allocation of licence bank resources in both the short and long term.

**PRINCIPLES**

Principles are the foundation from which the licence bank will operate. Principles identify the rules or guidelines that govern what the licence bank does and how it does it. Principles can include concepts such as transparency, equity, fair trade pricing, selective fishing and discard reduction, owner operator, licence bank financial security, and/or individual responsibility.

**GOALS**

Goals should encompass both short and long term interests and where possible should follow SMART guidelines (Specific, Measurable, Achiev-

able, Relevant, and Time-bound). Setting goals ensures that the members of the licence bank share a common purpose and agree to a general approach for achieving it. Goals are important for guiding the operations of the licence bank and contribute to the development of an evaluation framework (see Step 6).

**PCFCC CASE STUDY**

“We were brought together around the ground-fish integration process implemented in 2006, which presented a clear purpose for our bank. We purchased quotas, and the licences required to hold that quota, to address our bycatch requirements. As the issue around growing lease costs became apparent we used our licence bank structure to introduce principles of fair trade and owner operator, enabling us to further our goal of improved economic viability. By incorporating our own principles we could also achieve our community and environmental objectives which are beyond those entrenched in regulation.”

**CHECKLIST**

- Vision statement
- Defined principles
- Set of goals

**STEP 3:**

## Structure

The structure of the licence bank must reflect the purpose of the bank and formalize the relationship between licence bank members to better achieve its purpose.

Once the charter members come together and agree to what it is they wish to achieve, they must then turn their attention to how they will structure the licence bank. The decision will be highly dependent upon the regulatory environment they are working within, the needs of both the fishermen and non-fishermen partner(s), the anticipated sources of capital, and the intended use of revenues generated from licence bank activities. Possible structures include cooperatives, non-profits, contractual arrangements, or corporate entities.

Non-profits are able to access foundation and government funding that may not be available to a for-profit company. Conversely, non-profits are less flexible than for-profits in the activities that they can engage in and the use of revenue.

Cooperatives offer a for-profit option that entrenches shared ownership within the legal structure, but attention must be paid to the governing legislation. Depending on the jurisdiction, legislation governing cooperatives can either facilitate licence bank development or be cumbersome and restrictive.

Corporate structures offer the greatest flexibility for a licence bank and can be adaptable to needs through the shareholder agreement. The benefit of the corporate structure is that it doesn't limit how the licence bank operates in the same way that a non-profit or cooperative does, but it does place much greater emphasis on the shareholder agreement to ensure that the licence bank meets its objectives.

Personal contractual agreements may be the only option for licence bank development in jurisdictions and in situations where it is not possible

for a corporation or non-profit to own licences and/or quota, such rules limiting ownership to individual owner-operators or communal Aboriginal licences. The benefits of a licence bank can be achieved using contractual agreements between members and the officially recognized owner of the licence, allowing for the members to address their goals for the licence bank without requiring regulatory change.

### PCFCC CASE STUDY

“We chose a corporate structure, incorporating as a limited company, to provide greater flexibility as the licence bank developed, and to allow for the option of a portion of revenues to be returned to members as dividends. The partnership with Ecotrust Canada, a registered non-profit society, provides some alternative funding opportunities. We used our shareholder agreement to incorporate what we saw as the beneficial elements of a non profit and a cooperative.”

### CHECKLIST

- Collective understanding of options and needs
- Agreement on the structure
- Completion of legal documents and other required paper work (see “Useful Resources”)

**STEP 4:**

# Capitalize

New options for financing the acquisition of fishing assets become available for fishermen through the formation of a licence bank.

A licence bank must have assets to become operational. Before moving beyond the first stages of development, assets, or sources of capital to acquire assets, must be identified. The structure of the licence bank will inform what assets and capital are available or can be pursued. This in turn will influence what structure is adopted.

The main avenues for capitalizing the licence bank are:

- Existing assets of members, which can include holdings of fishermen members, communal licences held by First Nations, or funds held by a community
- Government funding, such as that available to First Nations and for rural economic development
- Foundation grants, which are unlikely to fully capitalize a licence bank, but which can be effective as seed money to begin a licence bank and build it over time.
- Loans, either through traditional banks or through low interest foundation program related investments. Due to the unwillingness of Canadian banks to use licences and quota as collateral, these traditional financing sources

will likely require members to use their individual assets as security

Earlier decisions, on the membership, on the principles and on the goals of the licence bank, and the structure, will all influence what capital is available to build the bank. An iterative process is advisable, where earlier steps are revisited once a capital source is identified.

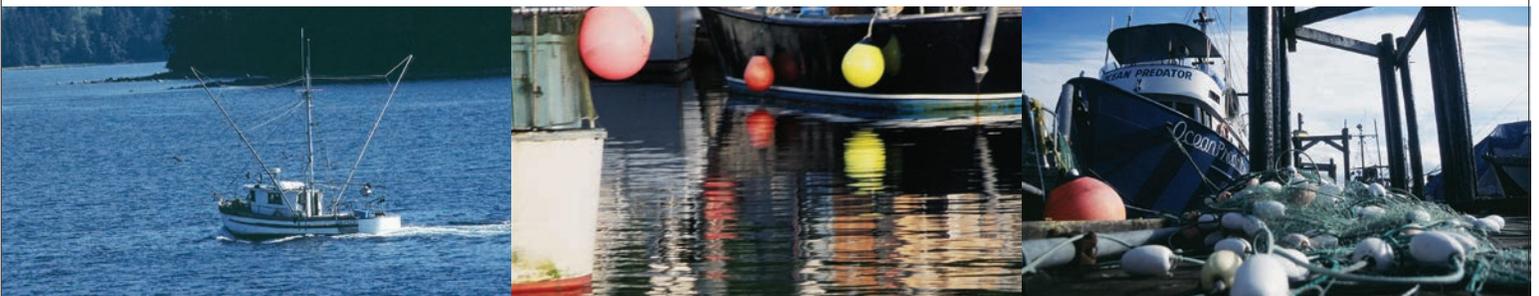
**PCFCC CASE STUDY**

“We were initially capitalized, at a very small scale, by purchasing 1/3 of a rockfish licence financed by Ecotrust Canada and its subsidiary Ecotrust Canada Capital, and secured with the individual assets of our fishermen members. A foundation grant enabled us to purchase additional quota and licences through a grant to Ecotrust Canada deployed to the PCFCC as a long term, no interest, renewable loan. Our current quota holdings and the revenue they generate project a payoff of the initial loan debt within 3 years. We can then reinvest in additional quota using the revenue generated from quota leasing.”

**CHECKLIST**

Assets needed for licence bank identified

Options for necessary capital identified



## STEP 5

# Planning

Like any portfolio of assets, a licence bank needs to be planned and managed with the due diligence required for any well run business.

Business plans should recognize the uncertain nature of harvesting sea resources and should take into account the avenues for mitigating risk such as diversifying by purchasing multiple species quota and licences. A plan must account for the fishing gear of members and the types of licences and quota available, reflecting the stated purpose and goals of the licence bank.

A business plan should take into account the following:

1. Expected leasing revenue, including an assessment of the risk associated with uncertain TACs, lease rates, quota purchase prices, and fishing activity
2. Costs of licence bank organizational development and administration
3. Licence bank growth strategy

The licence bank must generate revenue in excess of its costs if it is to be viable and have any chance of meeting its purpose. The difficulty is likely in the early stages of the licence bank, a period which can be bridged through short-term contributions of members or a staged financing plan. Regardless of how it is done, the licence bank can only persist if it

is kept financially solvent and can be self-sustaining over the long term.

The business plan must identify whether or not a staff position can be supported, and if not, provide realistic expectations for the in-kind contributions of time by members or partner organizations to meet the administrative burden of managing the licence bank.

A business plan should include projections for a variety of scenarios, covering drops in TAC or landed value, increases in fees or costs, and under-utilization of licence bank assets. Given the variable and often unpredictable nature of fisheries, a business plan that relies upon best-case scenarios is unlikely to be realistic and may project a false impression to members and funders on the financial viability of the licence bank. Given the financial risk that exists in this or any business venture, decisions should be made that are well informed and include an assessment of the risk.

A business plan is a critical intermediate step between the goals and principles of the licence bank and the procedures for how the licence bank will operate. An example of this may be commitments to financial solvency and fair trade pricing that will jointly require that the licence bank generate adequate revenue to fund its activities while limiting lease rates charged on licence bank quota. The business plan will outline the lower range of lease rates and provide guidance on quota purchases.



**PCFCC CASE STUDY**

“Our business planning has been dynamic, responding to changing conditions within the bank and external in the fishing industry. The initial business plan was dependent upon the strong commitment of our fishermen members to use individual assets as security on the loan and commit to paying off the loan despite the fact that the revenues would not meet the debt commitment in the short term. The addition of the grant, providing important seed capital, has improved the financial picture for our licence bank. The business planning exercise has proved invaluable for informing us, providing guidance on which quota to purchase, and managing the risk that is inherent in fisheries.”

**CHECKLIST**

Background information on TACs, lease rates, purchase prices, fishing activity, and current risks and threats

Business plan

**STEP 6:**

# Procedures

A successful licence bank requires a solid foundation of procedures to stay true to its purpose while protecting the interests of its members.

**SHAREHOLDER AGREEMENT**

Participants must build shareholder agreements that protect the interests of the partners while at the same time provide incentives for growth, future access by new participants, fair trading rules, and exit strategies.

The key elements covered within the shareholder agreement (or alternatively in a non-profit terms of reference or in a contract) are:

- The principles, purpose, and goals of the licence bank
- How new members join the bank
- How members leave the bank
- The use of licence bank revenues
- Activities the licence bank will engage in
- What will happen to assets and debts if the licence bank is dissolved
- Decision-making procedures, especially as relate to fishermen members and community / conservation partners

**OPERATIONS MANUAL**

The operations manual provides guidance to the licence bank manager and members on how the day-to-day operations of the bank will proceed. The operations manual is a document that can be revisited on an annual basis or as needed and is meant to be flexible to adjust to changing conditions and learning as the licence bank develops.

The key elements covered within the operating procedures document are:

- How quota access is divided among members
- Who can access quota
- Leasing rates for quota, or direction on how lease rates are set
- Code of conduct or standards of practice for members
- Consequences to members for failure to meet code of conduct commitments
- Payment terms for use of quota

**EVALUATION FRAMEWORKS**

An evaluation framework will allow the participants to reflect on the performance of the bank



against its stated objectives. An annual review of environmental, social and economic benchmarks will ensure that the bank is achieving its goals and is not having unintended consequences contrary to its stated purpose.

The development of an evaluation framework benefits greatly from setting SMART goals, and can be based entirely upon those goals.

#### PCFCC CASE STUDY

“How we developed our licence bank did not exactly follow the steps laid out here. Our shareholder agreement was not ratified until a year into operations, as was the operating manual. Without the experience of how the licence bank could run, the operating manual could not be written. Because of our strong commitment, and small quota holdings in the first year, this situation worked fine, although it is not recommended. A shareholder agreement, operating manual, and the beginnings of an evaluation framework were all in place half way through the second year, providing a strong foundation for the future development of our bank.”

#### CHECKLIST

- Hire a lawyer
- Shareholder agreement
- Operating procedures
- Indicators for measuring goals

**STEP 7:**

# Operations

A collaborative approach to managing and using fishing assets can open the door to numerous innovations to benefit both fishermen and the sustainability of the resource.

Once the previous six steps are completed, it is time to gear up for full operations. This may include a number of activities including finalizing outstanding agreements from members, obtaining signatures on shareholder and legal documents, transferring assets to the licence bank, and making purchases of quota or licences.

The administrative functions of the licence bank must also be established, which may include the development or deployment of quota trading software, the establishment of a quota trading network inclusive of both members and non-members of the licence bank, and ensuring that the elements identified in the first six steps are in place, such as the evaluation framework.

Expertise that must be consulted will likely include a lawyer, an accountant, and a business manager. Sourcing the appropriate expertise and establishing adequate procedures during the start-up will help to establish the licence bank on a firm footing. This is key, as failure to account properly for the amount of expertise and work needed to establish the licence bank will jeopardise its survival.

Once the licence bank is operational, with a proper structure, active members, a cost effective administration, and an ongoing evaluation process, its success will be measured by the bank's ability to fulfill its purpose.

**PCFCC CASE STUDY**

“We had a challenging start up, operating without the benefit of previous licence bank experience and having to develop administrative tools, such as quota tracking software, from scratch. The small size of our bank was an advantage in the beginning in that members had the opportunity to learn and establish practices and procedures with minimal jeopardy.

We are now meeting and exceeding expectations. We are financially solvent, have a promising long term business plan, and are proving to be a successful model of how fisheries can be different, and better, for fish and fishermen.”

**CHECKLIST**

- Fishing
- Learning
- Conserving
- Earning

# Resources

## DOWNLOADABLE TEMPLATES

[www.ecotrust.ca/ocean/toolkit](http://www.ecotrust.ca/ocean/toolkit)

- Sample Shareholder Agreement
- Sample Operating Procedures

## CONTACTS

Ecotrust Canada  
 Vancouver Office:  
 200-1238 Homer Street  
 Vancouver, BC, V6B 2Y5  
 F 604.682.1944  
[www.ecotrust.ca](http://www.ecotrust.ca)

Fisheries Program Manager  
 Tasha Sutcliffe  
 T 604.682.4141 ext 233  
[tasha@ecotrust.ca](mailto:tasha@ecotrust.ca)

PCFCC Manager:  
 Danielle Edwards  
[dnedwards@telus.net](mailto:dnedwards@telus.net)

## ONLINE RESOURCES

Interactive business planner  
[www.canadabusiness.ca/ibp/eng/index.cfm](http://www.canadabusiness.ca/ibp/eng/index.cfm)

Government of Canada business start up assistant  
[bsa.canadabusiness.ca/gol/bsa/site.nsf/en/su04938.html](http://bsa.canadabusiness.ca/gol/bsa/site.nsf/en/su04938.html)

Community Futures Program  
[fednor.ic.gc.ca/epic/site/fednor-fednor.nsf/en/h\\_fn01468e.html](http://fednor.ic.gc.ca/epic/site/fednor-fednor.nsf/en/h_fn01468e.html)

Choosing a Business Structure Government of  
 Canada business start up assistant  
[bsa.canadabusiness.ca/gol/bsa/site.nsf/en/su13295.html](http://bsa.canadabusiness.ca/gol/bsa/site.nsf/en/su13295.html)

## ACKNOWLEDGEMENTS

We would like to acknowledge the foundations whose financial support made this work possible, from the initial licence bank development supported with funding from the Oak Foundation through to implementation and seed capital supported by a grant from the Gordon and Betty Moore Foundation.

We also want to acknowledge the fishermen members of the PCFCC, whose initiative brought the licence bank to life and who continue to be an inspiration for how sustainable fisheries can be developed for healthy fisheries today and far into the future.



building the conservation economy / [ecotrust.ca](http://ecotrust.ca)

**HEAD OFFICE**

200 - 1238 Homer Street  
Vancouver BC V6B 2Y5 Canada  
T 604.682.4141  
F 604.682.4141

**CLAYOQUOT OFFICE**

PO Box 491, 2005 Grice Road  
Tofino BC VoR 2Z0 Canada  
T 250.725.2536  
F 604.682.4141

**ONLINE**

[info@ecotrust.ca](mailto:info@ecotrust.ca)  
[www.ecotrust.ca](http://www.ecotrust.ca)

