

Auctions for Quota: A case study from the Faroe Islands

Sanna Laksa, University of Liverpool

As part of a reform of the Faroese fisheries management system, the Faroese government ran a series of trial auctions of fishing quota in 2016 and 2017. The Faroe Islands is a small country, heavily dependent on the fishing industry. Although the fisheries contribute substantially to the economy, the industry is small in the global context and the economic operators are limited. Collusion and lack of entry are often big concerns of auction designers and such challenges are aggravated in markets with a limited number of operators such as the Faroe Islands.

This paper analyses the trial auctions and investigates their success in dealing with the mentioned challenges and at reaching the objectives set by the government. The paper finds that although the auctions generated significant revenue for the government, the auctions were not successful in terms of avoiding collusion and in meeting the government objectives. The findings from the paper strongly suggest that if the necessary effort is not put into designing an auction, the industry and government may be better off without introducing auctions. At worst poorly designed auctions could be damaging to the industry. Finally, the paper puts forward some potential ways of overcoming the problems with the auctions.