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Understanding financial risk for fishers and the role of diversification

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Fishers' risk management strategies are so far poorly understood. They face high income variability due to fluctuations in market price and catches of fish. One of the ways to mitigate this risk, has been to construct portfolios of quota whose revenues are either uncorrelated or negatively correlated with each other. This has made taking a portfolio approach to fisheries more popular. This research will empirically analyse the diversity of revenues of fishers' using Norwegian fisheries data. Using a diversity index, we will look at whether there are any longer term trends in diversification and differences in diversification between pelagic and demersal fishers. Further, we analyse whether diversification differs between vessel groups (which is based on vessel length) and depends on the home port of a vessel. This research speaks to the current financial risk management behaviour of fishers as well as their risk profile, and can provide insights into better risk management methods for fishers going forward. It also has policy implications, as some quota systems encourage specialization (such as, regulations limiting who can participate in a fishery), which can be harmful for the long term financial well-being of the fishers' as well as the local economy at large.

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