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October 22, 2004

ATTN: Jim Seger
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**RE: PUBLIC COMMENTS ITEM E.6: DEDICATED ACCESS PRIVILEGES FOR THE
WEST COAST LIMITED ENTRY TRAWL GROUND FISH FISHERY (TIQ)**

Dear Director Dr. Issac and Council members;

Please permit me to register my concerns regarding the proposal for individual fishing quotas for the groundfish trawl fleet. Trawl IFQ's would divide up the exclusive right to harvest most of the West Coast groundfish among one sector of the fishery and is not consistent with the council's goal of "fair and equitable distribution of fishery benefits." These resources are part of the public commons and for the council to consider exclusive rights to harvest for only one sector of the population at large and a single fishery type specifically is a privatization of public resources for the limited benefit (and financial windfall) of one small group that was given majority representation on the committee that developed the proposal. This committee did not include any representation of the larger public to whom these resources also belong, nor did it include recreational fisherpersons nor those using other commercial gear types. That members of the committee developed findings that they would themselves benefit from financially is both a conflict of interest and a resource grab that will do nothing to further the council's goal of protecting and conserving groundfish resources.

As a member of the public, I also have a proportional interest and right to these resources and very much object to the council dividing up the groundfish harvest in a manner that not only serves the personal financial interests of a narrow group but perpetuates and legitimizes a fishery type that is the most destructive and least selective method of fishing currently practiced. Exclusive rights to harvest only benefit an exclusive group. Exclusive rights to harvest that this exclusive group would like to have extended into perpetuity no less. They would like to own all the fish in the sea. This isn't even an auction to the highest bidder or to the group whose fishing method is most likely to conserve publicly owned groundfish resources. This is nothing less than the public gifting of millions of dollars of resources in the least fair and equitable distribution method possible to the fishery sector that is doing the least to "protect and conserve" it. Suggested provisions to word quotas as non-personal property, limiting the shares owned by one person/business, limiting or prohibiting resale of quota rights or making them of limited duration with regular reviews are not enough and completely ignore the central issue: granting exclusive rights to harvest is privatization of ocean resources however worded. These resources are a heritage and common property of all citizens and of all future citizens; if they can be said to be owned by anyone at all. They are not the council's property to give or lease exclusive rights to, the council is simply a steward of these resources. Precisely how would IFQ's benefit the public? It doesn't, it only benefits a select group of businesses. How would it protect and conserve groundfish resources? It doesn't, because the council is considering turning it over to the bottom trawling sector that creates the most waste of fish resources via a method that is the most destructive to fish habitat. Bottom trawlers are the last group that should be considered to start up a program of IFQ's. The council has only heard recommendations from a narrow group acting in self-interest. I urge you not to grant any exclusive rights to harvest to any method that is destructive to groundfish resources. Thank you for your time in consideration of my comments.

Melinda McComb



WHY FISHERMEN AND PROCESSORS SHOULD BE PROVIDED FOR EQUALLY IN A WEST COAST GROUND FISH ITQ PLAN

Prepared by the Coastal Jobs Coalition
October 22, 2004

OUR POSITION:

A harvest sharing approach that allows fishermen to be economically efficient and primary processors to obtain the fish they need will provide sustainable economic benefits to both sectors as well as the communities in which they operate.

Lessons from trawl buyback

In December of 2003 the federal government successfully completed a buyback of fishing permits for 92 groundfish trawl vessels in Washington, Oregon and California. The buyback resulted in a consolidation of an over-capitalized fleet. With over a third of the vessels now retired, the remaining boats will have greater fishing—and therefore economic—opportunity.

While by all accounts a long-term success, the buyback had severe side-effects for primary processors of trawl-caught groundfish up and down the coast.

From a vessel standpoint, the buy-back was a safe bet: either you get bought out and make a little money that way, or you stay in and hope for more fish to catch, and make a little more money. But for shore-based seafood processors and small coastal communities, the buyback was a risky gamble with winners and losers. The roll of the dice ended up hitting three longtime fishing communities very hard.

Once the buyback list was published it was quickly clear that a handful of primary processing plants had the rug pulled out from under them. In Eureka, California, Pacific Choice Seafood lost two-thirds of its groundfish fleet. Crescent City, California, saw 15 of 16 trawl vessels home-ported there bought back. And in Bellingham, Washington, Bornstein Seafoods lost five out of five vessels in the buyback, their entire fleet.

“The buyback left us on the verge of getting out of groundfish,” says Jay Bornstein.



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“It cost us a lot of money to try and stay in. We were forced to buy vessels in an effort to maintain our access to the resource. I’m a processor. I don’t want to be in the fishing [harvesting] business. I only jumped in to stay alive, and maintain our access to the resource to keep our plants running. We have a hard time investing, managing and keeping our own business going, let alone the other side of the business [harvesting],” says Bornstein.

Though the buyback carefully accounted for variability in vessel catch histories and values, little advance planning was done to predict the likely impact retirement of 1/3 of the trawl fleet would have on the primary processors who rely on the landings those vessels provide.

The goal of the Coastal Jobs Coalition is to learn from this mistake, and prevent a similar disruption from happening again as the industry moves towards individual quotas. The way to ensure a win-win on IQs is by allocating harvest quota equally between fishermen and primary processors.

The Pacific Fishery Management Council is considering the development of a trawl individual transferable quota (referred to as an ITQ, or dedicated access privilege—DAP) program for the Pacific groundfish fishery. The shore-based primary seafood processors engaged in the fishery and the industries that support them are urging the Council, Congress, and other decision makers to carefully consider primary processors’ role and investment in the fishery so a plan can be crafted that provides benefits for both harvesters and primary processors as equal stakeholders and partners in a viable long-term rationalized fishery.

Three reasons for a balanced ITQ approach

There are three primary factors supporting a balanced ITQ approach that recognizes harvesters and primary processors equally:

1. Primary processors’ capital investments in plants, equipment and human resources are symmetric with investments made in vessels. And because West Coast seafood processors are overcapitalized symmetrically with vessels, processing plant owners face the same devaluation of their investment as vessel owners when an open access fishery is rationalized.

There may be particular fisheries in some regions of the United States where the amount of non-malleable capital invested in seafood processing is small or non-existent. But along the West Coast, seafood processing is very capital and human-resource intensive.

“Both sectors have made investments, we’ve both committed time, energy and dollars, were equally extended. I have 40 years in this business, both processing and fishing. I don’t understand the basis for one-sided allocation; this is simply not a one-sided industry,” says Barry Cohen, owner of Olde Port Fisheries in Avila Beach, California.

Furthermore, rationalization will affect fishery participants' ability to access capital. Because value in the fishery will migrate from the vessels and plants towards the quota, quota becomes the preferred collateral for securing financing.

Only an initial allocation of quota will protect processor investment in the industry, and ensure adequate opportunity to employ that investment in the fishery going forward.

2. Only allocation of ITQ will guarantee access to resources traditionally enjoyed by either vessels or plants. Historically, a large number of vessels participated in the Pacific groundfish fishery, and each vessel had an opportunity to catch significant amounts of fish. This allowed primary seafood processors significant opportunities to buy fish given there were many suppliers available.

Today that is not the case. Fewer fish have shrunk the number of boats and plants. With fewer boats participating in the fishery, there are simply fewer suppliers for plants to buy fish from. With rationalization, the number of vessels will shrink considerably further, and each vessel will have control over a significantly greater amount of fish.

Where a plant currently might require 10 boats to guarantee adequate throughput, in the future that same plant may require only three vessels for the same throughput. The consolidation makes each of those vessels that much more important, because a loss of even one vessel cannot be so easily absorbed. In this example, one boat lured away by a competitor or deciding to vertically integrate and get into processing on its own means a 33% reduction in throughput for the plant—a significant hit.

Primary processor Jay Bornstein describes his concerns about access to resource, "I'm going through that right now in my efforts to build a new plant in Astoria. It's kind of like being born again. In 1977 we took out a 25 year extension on our lease. But before we did we had to determine whether the fishery resource would be there for us another 25 years."

"Each time you renew a major financial commitment like that you have to evaluate the future. But this time it's not the health of the resource I'm worried about. I have confidence it will be there 25 to 30 years in the future. What we're scrutinizing more this time as we build a new plant in Astoria is our access to that resource, and the political decisions that may limit our access to that resource."

"Our long-term viability will be based on political decisions that determine our ability to access resource. I'm obligating the next generation of my company to this. This is why an initial allocation of quota to primary processors is so important, because it guarantees you the privilege to access that resource. If you don't get the privilege initially, you have to spend extra money to buy that privilege, because those privileges can move and coalesce anywhere, in any community—and that may not be my community. Without being included in an initial allocation, all bets are off; we have no guarantee we'll be able to access the resource going forward and our ability to survive is harder to bank on."

Without an initial allocation, plants will have to buy harvesting quota to guarantee future access to the groundfish resource. According to Jay Bornstein, “The medium and small guys like me are the ones radically at risk, because we don’t have the resources to buy quota if the fishery goes one-sided IQ. I’d have to sell my company to buy the quota, but with no plant left what would I do with it?”

And while some fishermen legitimately fear that allocation of quota to processors will spur those processors to vertically integrate, the reverse is true. “The thing the boats need to understand is that if I’m allocated quota, they will still fish it. Some quota just guarantees me the right to access fish, but I have no intention of getting additional boats for harvesting,” adds Barry Cohen.

The only way to guarantee stability for primary processing plants is by initially allocating them harvesting quota.

3. Allocation of ITQ to one sector alone—either harvesters or processors—will empower them with the ability to extract rents from the fishery to the detriment of the other sector.

The free market sets the price of fish. In today’s global seafood marketplace, West Coast wild Dover sole competes for shelf space with farm-raised tilapia. Pacific snapper competes against imported orange roughy. And soon, wild-caught black cod will compete with farm-raised black cod. The price the West Coast wild-caught groundfish industry can command for their fish is not theirs to determine, it is the market that decides.

Yet, under a rationalized fishery that allocates quota entirely to harvesters, the small number of remaining vessels with newly concentrated quota will hold tremendous leverage over the seafood buyer to extract rents from the fishery.

Caught between these rent-extracting ex-vessel prices and an inflexible market price for the finished product, primary processors will see their margins shrink below that necessary to maintain plant and equipment, maintain market presence, maintain a steady labor force and maintain a profit at the same time.

Without alternatives to access the same groundfish resource, buyers will have little choice but to yield to the demands of their suppliers and accept thinner margins. Or they will become their own suppliers, buying vessels and harvest quota to supply their plants. While our current fishery has little vertical integration, a rationalized fishery with a one-sided allocation of quota will actually foster vertical integration.

Only an initial allocation of quota to processors will ensure balance, preventing one sector from extracting rents from the other, and reducing the incentive to vertically integrate.

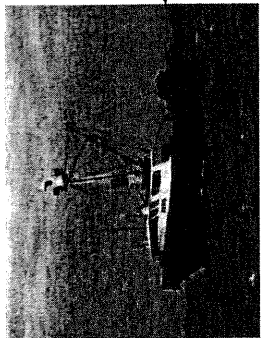
A winning solution is needed

The initial allocation of quota is the most contentious issue currently facing the Pacific groundfish industry as it moves towards rationalization. Yet, it is an issue that can be solved, by crafting a quota system that adequately recognizes and provides equally for both major industry sectors—harvesters and primary processors. A system that offers vessels a profitable long-term future in the fishery, while ensuring primary processors' access to resource will provide sustainable economic benefits to coastal communities.

Everybody wins.

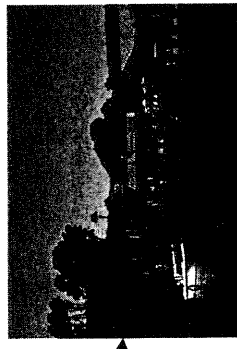
A Balanced ITQ Approach

Harvesters & processors share the fish



F/V Helen M.
50,000 lbs.
quota owned

100,000 lbs.
harvest quota
allocated equally



Hall Bros. Seafoods
50,000 lbs.
quota owned

Harvesters and processors form partnerships
Hall Bros. gives their quota to Helen M. in exchange for right to buy all 100,000 lbs.

Helen M. harvests all 100,000 lbs.

Helen M. sells all 100,000 lbs. to Hall Bros. for processing

Harvester wins
 Processing plant wins
 Community wins
 Jobs are protected
 Local economies benefit
 Fishery resource better managed



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