



## WC Groundfish Trawl Rationalization Process ITQ Set-aside Considerations - Summary

- ⇒ On May 15, 2007 the GAC committee passed a motion to recommend to the PFMC that a 10% quota set-aside provision be included in the EIS evaluation process. A 10% quota set-aside could be used as an adaptive management tool to address unforeseen and unexpected impacts of an ITQ plan.
- ⇒ Because a 10% adaptive management quota set-aside can provide compelling incentives for industry to develop a fishery that balances conservation, economic, and community objectives, Environmental Defense and Natural Resources Defense Council support its inclusion in the EIS process.
- ⇒ A quota set-aside can be used, not only to deal with “unforeseens,” but as a vehicle for encouraging industry to evolve towards a positive, vibrant future.
- ⇒ The attached brief is offered as a resource to better inform the debate on the merits of an adaptive management quota set-aside to address unanticipated and unforeseen impacts associated with Groundfish Trawl ITQ plan implementation.
- ⇒ Several ITQ concerns or issues are described, along with four mechanisms for potentially addressing them:

Issue/Concern:	Adaptive Management Goal/Mechanism:
Concern over processor stability - IQ plan dynamics may cause disruption to processors, placing processing investments and shore jobs at risk.	Industry Stability (described on p.3)
Concern over processing plant closures in communities that are dependent on the groundfish trawl fishery.	Vulnerable Communities (described on p.3)
Issue of encouraging fishermen to use best practices such as bycatch reduction and minimum habitat impact	Best Fishing Practices (described on p.4)
Concern that industry is failing to engage in meaningful business development to grow wholesale revenues and reduce costs and allow new entrants, but is rather focusing overly on rationalization as the means of achieving operating efficiencies.	New/Innovative Business Initiatives (described on p.4)

- ⇒ Although 10% of the trawl allocation would be set aside for adaptive management purposes, 100% of the TAC would still be fished by LE trawl vessels. Commonly voiced concerns about a set-aside program are addressed on page 5.
- ⇒ This brief shows how an adaptive management/quota set-aside plan can serve a variety of practical purposes, confirming that its inclusion in the EIS process would ensure a balanced and comprehensive evaluation of initial allocation options.

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# WEST COAST TRAWL RATIONALIZATION PROCESS

## **Trawl Allocation Set-Aside Considerations**

*A Brief Supporting Inclusion of an Adaptive Management Quota Set-Aside Provision in the Environmental Impact Study*

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## INTRODUCTION

On May 15, 2007 the GAC committee passed a motion to recommend to PFMC that a 10% quota set-aside provision be included in the EIS evaluation process. The motion described the set-aside option as follows:

- 10% share set-aside, all species; temporary (10 year sunset); beginning in the first year.
- Set-aside to address unforeseen and unexpected impacts arising from the ITQ program.
- Flexible - set-aside quota-pounds could be issued if not needed; could be matched with other allocation alternatives; could address areas/issues such as new entrants, best fishing practices or communities.

The above resolution reflects GAC's recognition of the need to address unforeseen potential impacts accompanying ITQ implementation, coupled with the desire to ensure a successful program.

## PURPOSE OF THIS PAPER

Environmental Defense ("ED") and Natural Resources Defense Council ("NRDC") support inclusion of a quota set-aside provision in the EIS process, because they believe that an ITQ program which allocates 100% of quota-shares to industry will inevitably bring side-effects that cannot be retroactively remedied. A 10% quota set-aside can provide compelling incentives for industry to develop a fishery that balances conservation, economic, and community objectives. Even though a quota set-aside option has strong inherent appeal, ED and NRDC recognize that the Council needs to have sufficient specificity for the option as it strives to define the detailed elements of the EIS for the trawl ITQ Plan.

Therefore, this brief is offered as a resource to Trawl Rationalization decision-makers, providing illustration of how a 10% quota set-aside could be used as an adaptive management tool to address emerging and changing areas of need.

## ADAPTIVE MANAGEMENT: DEALING WITH "UNFORESEENS"

The key purpose underlying the GAC motion is maintenance of a mechanism for dealing with the unforeseen impacts of an ITQ plan. In fact, some of the potential impacts are foreseeable - including processor dislocation, diminishing activity in trawl-dependent communities, a shift in the bargaining dynamics between fishermen and processors, lack of innovation due to concentration in processing, and failure to fully realize potential conservation benefits - but the timing and severity of these impacts, if they occur at all, will only be revealed over time.

A quota set-aside can be used, not only to deal with "unforeseens," but as a vehicle for encouraging industry to evolve towards a positive, vibrant future.

## VISION OF GROUND FISH TRAWL FISHERY EVOLUTION

ED/NRDC share a vision of a West Coast groundfish trawl fishery where:

- Catches of target species stay comfortably within TACs, and mortality of over-fished species is minimal.
- Fishermen and processors enjoy a true partnership, focusing on enhancing the value of West Coast groundfish, rather than being at loggerhead over differences in ex-vessel fish prices.
- There is reasonable stability for past participants, and reasonable opportunity for new entrants (in both the harvesting and processing sectors).
- Industry engages in critical business development initiatives to ensure competitiveness.
- Industry goes beyond compliance with conservation regulations, demonstrating genuine resource stewardship.

Inclusion in the management framework of *incentives* such as those potentially provided by a flexible, well-conceived adaptive management program would help achieve this vision.

**ADAPTIVE MANAGEMENT PROGRAM – HOW IT MIGHT WORK**

One of the challenges in evaluating the merits of the adaptive management (quota set-aside) concept is a lack of definition - the concept is appealing, but the details have not yet been nailed down. ED and NRDC have devoted considerable thought to how an adaptive management program could be made to work in the West Coast groundfish trawl fishery. The following comprises a summation of work completed. It is not presented as the definitive answer, but merely as a potential system that could fit the intended purpose of dealing with ITQ program unforeseens as they arise.

***Adaptive Management Program: Selected Details***

The adaptive management/quota set-aside system envisioned by ED/NRDC would include the following provisions:

- The 10% share set-aside would be “across the board” for all species/area quotas.
- The 10% share set-aside could be allocated towards a single goal (that is, Industry Stability, Vulnerable Communities, Best Fishing Practices, or New/Innovative Business Initiatives) or could be split to serve multiple objectives. If not needed, the set-aside would be assigned directly to quota share holders. All set-aside quota pounds would ultimately flow through to LE groundfish trawl vessels.
- A discipline of ITQ Program Review (at least every four years) would accompany an adaptive management program. Measurable parameters could be defined and tracked, and possibly serve as “triggers” for activation/de-activation of program mechanisms.
- The 10% share set-aside would be in lieu of an initial direct allocation to processors.
- The set-aside allocation would never be *owned* by the recipient; leasing of set-aside quota-pounds would not be permitted (set-aside quota swapping *would* be allowed).
- A nominal (2-5 cent per pound) administrative fee would be levied for use of set-aside quota-pounds.
- Set-aside quota-pounds would be deemed the “first fish caught” for admin purposes.

***Potential Adaptive Management Purposes & Mechanisms***

Although others could be added as circumstances required, the details for achieving four specific goals have been fleshed-out:

Issue:	Adaptive Management Goal/Mechanism:
Concern over processor stability - IQ plan dynamics may disadvantage processors, placing processing investments and shore jobs at risk.	<b>Industry Stability</b> - allow processors to allocate set-aside portion of allocation to secure raw material supply and foster improved relationships with fishermen.
Concern over processing plant closures in communities that are dependent on the groundfish trawl fishery.	<b>Vulnerable Communities</b> - provide plant owners in “vulnerable” communities with quota incentives to encourage continued fish deliveries and operations in these ports.
Concern that industry is minimally complying with conservation requirements, but is not developing a genuine resource and ecosystem stewardship ethic.	<b>Best Fishing Practices</b> - use all or a portion of set-aside allocation to provide conservation incentives to fishermen demonstrating low overfished species encounters, low discards, and minimal bottom impacts.
Concern that industry is failing to engage in meaningful business development to grow wholesale revenues and reduce costs, but is rather focusing overly on rationalization as the means of achieving operating efficiencies.	<b>New/Innovative Business Initiatives</b> - use all or a portion of set-aside allocation to encourage new product/market development, fish handling protocols, and new entrants.

**Details for Implementing Four Adaptive Management Goals – Description and Elements**

The details for using the set-aside to help achieve these four goals are offered for consideration. Programs such as these could be mixed and matched, implemented & phased out over time, or never implemented at all (if not needed). Review would help determine the evolving need for various set-aside allocations.

**1. Industry Stability**

**Industry Stability Description & Objectives**  
 During a challenging transition period, a program to encourage stability - to prevent undue dislocation - could be important. Industry Stability allocation allows processors to direct a portion of quota pounds to fishermen to:

- facilitate fishermen-processor working relationships.
- maintain secure supply of fish to coastal plants.

Allows processor to direct a small portion of quota pounds to secure supply arrangements.  
 Addresses processor concerns about security while still providing fishermen with 100% of the quota.

**Industry Stability Program Elements**  
 Each processor directs its portion of set-aside quota pounds to LE vessels.  
 Based on 3-year running average processing history for the company.  
 Requires processors and fishermen to make pre-season delivery arrangements.  
 Fee for use of set-aside quota pounds - \$0.02 per pound to cover administration (paid prior to quota issuance).  
 No leasing of set aside quota-pounds from processor to fishermen.  
 Fishermen can swap/trade set-aside quota-pounds but not lease to other vessels.  
 Up to industry to enforce delivery agreements.

**2. Vulnerable Ports**

**Vulnerable Ports Description & Objectives**  
 Fleet and processing rationalization accompanying an IQ plan may adversely impact communities that are dependent on the groundfish trawl fishery.  
 Set-aside quota pounds can be used as an incentive for fishermen/processors to maintain operations in vulnerable ports.  
 Set-aside quota pounds would provide support for vulnerable communities that are in other ways disadvantaged.  
 Plant owners in vulnerable ports would receive enhanced allocation of quota (vs plants in “resilient” communities).  
 Based on port analysis in Chapter 7.0 (Socio-economic Environment from Draft EIS).  
 Encourage continued operation of plants in vulnerable communities.

**Vulnerable Port Program Elements**  
 Each processing plant owner directs its portion of set-aside quota pounds to LE vessels.  
 Based on 3-year running average processing history for each plant (plant specific).  
 Processing history “attached” to plant, not plant owner (succession).  
 Set-aside quota stratified by port type: robust, vulnerable, or most-vulnerable. Plants in more-vulnerable ports receive higher percentage of set-aside for distribution to local fleets.  
 Requires plant-owners and fishermen to make pre-season delivery arrangements.  
 Fee for use of set-aside quota pounds - \$0.02 per pound to cover administration .  
 No leasing of quota-pounds from plant-owner to fishermen.  
 Fishermen can swap/trade set-aside quota-pounds but not lease to other vessels.

**3. Best Fishing Practices**

***"Best Fishing Practices" Description & Objectives***

Strive to go beyond mere compliance - to develop a strong resource and environmental stewardship ethic.

Provide additional incentive to harvesters to maximize ecological benefits, for example:

- Overfished species avoidance.
- Minimal at-sea releases.
- Minimal bottom-impact.

Develop measurable criteria using observer and offload monitor data.

Best fishing practices quota to reward top conservation performers.

Quota should gravitate to harvesters with best sustainable fishing practices.

***"Best Fishing Practices" Program Elements***

Benchmark conservation criteria established; define measurable parameters of "best practices"

- Overfished/bycatch species (eg. lowest mortality, lowest encounters).
- At-sea releases (eg. lowest ratio of discards to retained).
- Bottom-impacts (eg. highest bottom-fish landings per hour towed.)

Consider information requirements in at-sea/landings monitoring program design.

Two-year catch history, with higher weighting on most recent year.

Set-aside quota-pounds allocated to "top" performers (establish criteria).

Fee for use of quota-pounds - \$0.03 per pound to cover administration

**4. New/Innovative Business Practices**

***New/Innovative Business Practices Description & Objectives***

ITQ plan provides an environment for improved fish-handling, a more stable landings pattern, and more refined scheduling of landings to meet customer needs.

Merely performing the same functions better may not result in an economically healthy and competitive groundfish trawl industry - genuine business development must accompany ITQ-driven improvements

A new/innovative business initiatives program could provide additional incentives to improve revenues, reduce costs, and expand opportunities, for example:

- New product development
- Market diversification
- On-board and in-plant fish handling protocols
- New processing entrants that may have limited processing history
- Ventures that restore fishing heritage/commercial wharf activity

***New/Innovative Business Practices Description & Objectives***

Set-aside quota made available to fishermen and/or processor proposals demonstrating new or innovative business initiatives.

A proposal ranking system would be developed.

Also requires a process for assessing plans vs. actual results and accomplishments

A 3rd party could be contracted to perform rankings/assessments.

Proposals not yielding quantifiable benefits would not receive set-aside allocation in following year(s).

Fee for use of quota-pounds - \$0.05 per pound to cover administration (higher cost - will require more administration and evaluation of claims vs. actual).

This is a more subjective mechanism than the other three.

**ANSWERING ADAPTIVE MANAGEMENT PROGRAM CONCERNS**

Previously raised concerns with an adaptive management program are answered as follows:

Adaptive Management Program Concern:	Adaptive Management Program Rationale:
A 10% set-aside is not sufficient to have a meaningful impact on industry behavior.	The British Columbia experience demonstrates that a 10% set-aside provides ample incentives, and can be used as an effective influence over the remaining 90% of allocation.
A 10% set-aside may be workable in British Columbia, but our fishery management system and industry structure are totally different than BC's. B.C.'s solutions don't apply here.	The set-aside mechanisms suggested by ED/NRDC are unique in design to suit U.S. circumstances. They are less bureaucratic, less subjective, and more incentive-oriented than BC's model. The main lesson learned from B.C. is that industry and government can design a unique system based on their goals and objectives. Here, as in B.C., the fishery objectives include community considerations - hence, the appeal of an allocation set-aside scheme.
An allocation set-aside erodes the amount of fish available to the fleet, rendering fishing economics marginal.	All set-aside quota "flows through" to be fished by LE vessels - at the cost of only a slight administrative fee.
Processor concern: a set-aside in lieu of processor initial allocation fails to address processor interests. Fishermen concern: a set-aside where processors influence a portion of allocation may perpetuate (or exacerbate) the current level of processor concentration.	The set-aside concept (industry stability mechanism) strikes a balance: providing processors with a tool for attracting fishermen, while ensuring that all quota is fished by LE vessels. It may be neither party's first choice, but both could live with it.
What if there is no use for all or a portion of set-aside quota-share in a given year? Would it remain un-fished?	Any set-aside allocation not used for a specific purpose would be allocated to LE vessels pro-rata to their quota-share holdings.

**SUMMARY**

This brief is offered by Environmental Defense and Natural Resources Defense Council to better inform the debate on the merits of a quota set-aside to address unanticipated/unforeseen impacts associated with Groundfish Trawl ITQ plan implementation.

In designing an ITQ plan that balances conservation, economic, and social goals it is important to remember that:

- Once quota shares are fully allocated and trades have been made, it is extremely difficult to amend the allocation formula; an upfront set-aside is a sensible approach for dealing with unforeseens.
- Although the future is uncertain, there are specific concerns that, if they arise, could be addressed with quota set-aside mechanisms (such as those offered in this paper).
- Very little else exists in the EIS besides this feature to address social goals.

The large number of potential permutations of a set-aside program should not preclude informed and reasoned discussion. It is hoped that the framework provided herein will help to narrow the debate. Using these examples as a springboard, the Council could task staff to develop specific details of the program for analysis. ED and NRDC believe that a quota set-aside provision merits evaluation in the EIS process alongside the other initial allocation options.