

TRAWL RATIONALIZATION (AMENDMENT 20) HEARING SUMMARY – NEWPORT

Date: October 27, 2008	Hearing Officer: Rod Moore
Location: Newport, OR	Other Council Members: Frank Lockhart Steve Williams (ODFW)
Attendance: ~70	Coast Guard: Brant Soderlund
Testifying: 24	Council Staff: Merrick Burden Heather Brandon
Organizations Represented: Fishermen’s Marketing Association Environmental Defense Fund Coos Bay Trawlers Association.	

Synopsis of Testimony

Of the 24 people testifying:

- Ten said they supported the preliminary preferred alternative if it includes the 20 percent initial allocation to processors.
- Ten said they supported trawl rationalization but did not support an allocation to processors.
- Four said they preferred status quo or trawl rationalization in some other form than that proposed by the Council.

Harvester Sector Comments

The Council should move quickly on trawl rationalization in November. The whiting fishery is an extreme derby fishery, and we need to do something. Move forward with shoreside whiting individual fishing quotas (IFQs) in one sector and do not wait for legislation for a shoreside whiting co-operative. As a conservation method, IFQ management is the best tool we have come up with. Additionally, full retention should be implemented in order to eliminate discards.

Harvester shares for processors will not help the fishery. Trawl rationalization should be for greater conservation and sustainability, and shares to processors do not address the waste of bycatch. Fleet consolidation combined with shares for processors will eliminate more jobs than rationalization of the fishery without shares for processor. An allocation of shares to processors will redistribute the wealth away from harvesters and crew. Adaptive management is preferable over processor shares, or some other tool to compensate processors without giving them harvester shares.

The PFMC may not have the legal authority to allocate initial shares to processors, because it is akin to allocating processing privileges. No other Council has ever done it.

If there is an initial allocation of harvester shares to processors, not all processors will get shares and

that gives preference to certain processors. Some processors are already advantaged to a greater degree, and those processors should not have more market power. The initial allocation dates for processors should be the same as the CVs, if processors do get an initial allocation.

Adaptive management needs more work or may not be the right solution, but communities will still need some protection. Adaptive management should not be done right off the bat, so that we can see where the problems really are.

Regional landing zones were not supported. IFQ should fall (through initial allocation) where they had been harvested. However, something should be done to keep the fleet spread out and prevent localized depletion.

The 2003 control date and the highest level at that time should be used for accumulation limits. There should be no grandfather clause. The only people that would be cut out would be those who gambled after that date. The detailed math on accumulation limits would not have to be done in November, but rather the Council should lay a foundation for how we will move forward on accumulation limits.

Gear switching is not ready for implementation, it needs more work, and it might need to lag behind the trawl rationalization program so that further development can be done. If there is a push towards trawlers using fixed gear to catch IFQ, then be consistent and allow fixed-gear harvesters (not open access harvesters) to buy quota sharing (QS) and fish it without also obtaining a limited entry (LE) trawl permit. Include an opportunity for the fixed-gear fleet, rather than crowding the fixed-gear fishery. Conversely, the trawlers should be able to buy blocks from vessels in the fixed-gear fishery and fish them. One suggestion is to allow vessels that currently have both permits to switch back and forth as a pilot program.

There has not been enough analysis of impacts on other fisheries, especially shrimp fisheries.

Processing Sector Comments

Support processor shares to stabilize processing companies and the communities they are in.

The goal must be to promote the entire fishery, not just harvesters. A large scale business plan is needed, and at a minimum that should start with a 20 percent initial allocation to processors.

Capital will chase IFQ as it moves up and down the coast (or off-shore). There will be erosion of the current shore-based capital in both processing and harvesting. Processors shares would provide an incentive for the processors to evolve with the harvesters.

Processors have incredible capacity from the derby fishery, and that capacity will allow processors to compete for deliveries down to the direct operating expense. Then we will not be able to reinvest in the fishery or innovate.

Please separate the non-whiting and whiting fisheries and allow one to go forward in the rationalization process even if the other does not.

Environmental and Conservation Interest Comments

Support the October 2008 GAC recommendation that supports Adaptive Management and opposes processor shares.

Adaptive Management is the most flexible and responsive tool you can use to address issues and communities.

Support the following provisions in the trawl rationalization PPA: 100 percent observer coverage, 10 percent carryover, 40°10' North Latitude line split. Support the GAC recommendation to look at other areas where area management or subdivision could occur.

Written Statements (Attached)

PFMC
11/02/08

Pacific Fishery Management Council
9700 NE Ambassador Place Suite 101
Portland, OR 97220-1384

October 25, 2008

Dear Council Members,

This letter is from a group of small trawlers who have concerns about the rationalization program for the west coast groundfish trawl fishery.

The proposal to give 20% of quota to processors is a tough pill to swallow. Groundfish prices to the fleet have never kept up with inflation. It will be very hard to get a fair price if the processors have a quota share.

Another area of concern is the full time observer requirement. We are all smaller boats, most under 50 feet in length, and living quarters are already crowded with a standard crew of two plus the captain. The cost of the observer, on top of the buy back tax and the cost of fuel, is one more expense we cannot afford.

We are all owner operated vessels that fish crab in the winter. We will all be gearing up for the December 1 opening and will not have time to attend the San Diego meeting to give testimony in person. Therefore, the undersigned, want the west coast groundfish trawl fishery to remain status quo.

Sincerely,

Permit Holder	Vessel	Permit #
Thomas R. Nowlin	Apache	GF0308
Donny Cardonel	Jurdad	GF0087
Devin S. Hockema	Brandy	GF0689
John M. Hockema	Husky	GF0616
Mark A. [Signature]	OVERCAST	GF0885
Richard [Signature]	nel Ron Dic	GF0032

Amount of groundfish made available for the Adaptive Management Program under two different scenarios of groundfish specifications.

Submitted to the PFMC by
Fishermen's Marketing Association
10/27/2008

The Adaptive Management Program (AMP) has been offered as a method of redressing unexpected consequences of the implementation of the Individual Fishing Quota (ITQ) program by the Pacific Fishery Management Council. The AMP has also been offered as a way to compensate processing companies if they are able to show that they have been harmed by the ITQ program.

The AMP that has been discussed throughout the development of the ITQ program has been based on an amount of fish equal to 10% of the ITQ quota pounds that will be distributed. Recently questions have been raised as to whether an AMP based on 10% of the available quota pounds is large enough to address the needs of this kind of program.

This paper is intended to show the range of quota pounds that will be available for the Adaptive Management Program.

The quota pounds that will be distributed as AMP pounds will be based on the overall total of quota pounds available for ITQ distribution. These quota pounds will equal the Optimum Yield (OY) amounts that are adopted in the annual specifications. OYs may equal acceptable biological catch (ABC) numbers for some species or be reduced to insure that certain species do not become overfished, or if a species is already overfished, to insure that it will rebuild.

Currently catches are much lower than the OYs that are likely to be in place once the ITQ program is implemented. In fact, catches today are much lower than the OYs that are in effect now. While it is difficult to predict what the OYs will be in the future is reasonable to assume that at the time of implementation they will be at least as high as those that are in place for the 2010 season. It is also reasonable to believe that OYs will not be higher than the ABCs that are in place for the 2010 season.

It is important to remember that fishery managers will not need to build additional conservatism into future OYs. The individuals will have the responsibility to stay under their individual quotas and observers will be on board the boat to insure that all catches are counted.

Attached Tables 1-A shows the OYs that have been adopted for the 2010 season. Table 2-A shows the ABC values that have been adopted for the 2010 season. These tables bracket the range of available quota pounds that will be available once the ITQ program is in place. These not only become the basis for quota pounds available for harvest, they also show the tremendous potential of landings that can be possible if fishermen can learn to avoid catching extremely restricted species of fish.

The first column in Table 1-A shows the currently adopted OYs for 2010 and in Table 2-A shows the currently adopted ABCs. The second column in each chart shows the percentage that will go to the trawl industry based on the recommendations of the Groundfish Allocation Committee (GAC) (table attached at end of packet). The third column in table 1-A is that amount of OY that will be assigned to the trawl industry, based on the 2010 OYs and the recommendations of the GAC, and in table 2-A is the same number based on the 2010 ABC values and the recommendations of the GAC.

These charts indicate that the sum of the OYs for non-whiting groundfish and therefore the amounts available for distribution for ITQ pounds will be between 64,129 Metric Tons (MT) and 89,587 MT. Shoreside Whiting OYs are likely to be 98509 MT.

Table 1-B shows the quota pounds, in Metric Tons, that will be placed into the AMP based on the low end of the range and Table 2-B shows the AMP tonnage of the high end of the range. Percentages used demonstrated in the tables are 5%, 10%, 15% and 20%.

Table 1-C and 2-C show the catches of groundfish for each State and totals for the entire Coast for 2003, the last year of the window period being used for quota share distribution. Table 1-D and 2-D show landings for each state and totals for the entire Coast for the 2007, the last complete year of catches. These charts will be used to show possible distributions of AMP pounds between the state.

The total landing figures on these charts show how much lower current landings are than OY levels. This is reflected in the next tables that show AMP pounds as a percentage of current landings.

Table 1-E shows AMP pounds as a percentage of current landings if the lower end of the OY range is used. Table 2-E shows these percentages if the AMP pounds are based on the high end of the OY range. These tables reveal the true impact of varying percentages used to determine AMP pounds.

Current landings probably reflect the current state of the available market for non-whiting groundfish. Although larger amounts of non-whiting groundfish will become available for harvest with implementation of the IFQ program, it will take a period of time to increase the market for these fish. Therefore, the immediate market for non-whiting groundfish is likely to remain at current levels for a period of time after implementation of the ITQ program.

Quota holdbacks for the AMP will become available for use with implementation of the ITQ program. Because of the lag in increasing market availability, AMP pounds have the possibility of being a much larger share of total landings than the percentage of total quota pounds used to determine the amount of holdback. As an example, a 10% quota hold back represents between 37.2% and 51.9% of current non-whiting landings. 20% of total quota pounds for AMP represents between 74.3% and 103.8% of current non-whiting landings.

At the latest GAC meeting, the committee voted to explore distributing the AMP pounds among the states. One suggestion is to distribute the pounds based on the relative distributions of landings for either during the window period or for the current year. Tables 1-F and 2-F show distributions to the state that reflect the relative percentage of landings for 2003, the last year of the window period, and for 2007, the last complete year of landings. The landings amounts that are the basis for these distributions are shown in tables 1-C, 1-D, 2-C and 2-D.

Tables 1-G and 2-G show the percentage of total quota pounds needed to achieve various percentages of current total landings. As an example, if 10% of current landings of non-whiting were considered the appropriate amount of AMP pounds, then the percentage of total non-whiting quota pounds that would be needed would be between 1.927% and 2.692%.

In summary, because of the large amount of OY available for distributions as quota pounds, percentages held back for AMP pounds are likely to be a much larger share of landings than the percentage used to determine their amount. An AMP based on 10% of available quota pounds, the amount discussed in the Environmental Impact Statement, would be 37.2% and 51.9% of current total landings.

Table 1-A: Estimated amount of groundfish, by speices, that would be available for distribution in the Pacific Groundfish Trawl IFQ Program

	MT OY in 2010	Percent Trawl	MT for IFQ
Lingcod	4,829	40.0%	1,932
P Cod	1,600	98.0%	1,568
Sablefish - North	6,471	48.0%	3,106
Sablefish - South	1,258	42.0%	528
POP	200	99.0%	198
Shortbelly	6,950		0
Widow	509	91.0%	463
Canary	105		0
Chilipepper	2,447	80.0%	1,958
Bocaccio	288		0
Splitnose	461	97.0%	447
Yellowtail	4,562	88.0%	4,015
Shortspine north	1,591	98.0%	1,559
Shortspine - south	410	58.0%	238
Longspine - north	2,175	99.0%	2,153
Longspine - south	385	5.0%	19
Cowcod	4		0
Darkblotched	291	98.7%	287
Yelloweye	17		0
Black	1,464	0.0%	0
Minor SlopeRock - north	1,160	81.0%	940
Minor SlopeRock - south	626	63.0%	394
Dover	16,500	100.0%	16,500
English	9,745	100.0%	9,745
Petrals	2,393	100.0%	2,393
Arrowtooth	10,112	99.0%	10,011
Starry flounder	1,077	87.0%	937
Other Flats	4,884	97.0%	4,737
Other Fish	5,600		0
Longnose Skate	1,349		0
Dogfish		70.0%	0
Total Non-whiting	89,463		64,129
Whiting	234545	42%	98,509

Notes:

OY is based on Preliminary Annual Specifications document - August 2008, Table 2-1b, page 16-17

Trawl percentage is based upon GAC recommendation to PFMC April 2008, Table 1, page 4

The allocation for Sablefish takes 10% off the top for tribes, 8% off the balance for Open Access and then divided 42% for Fixed Gear and 58% for Trawl.

Whiting is 267545 mt minus 35,000 mt for tribes. Percent is shorebased allocation.

Table 1-B: Amount of Groundfish that would be made available at various set aside percentages

Adaptive Management Percentage	Tons of fish provided	
	whiting	non-whiting
5%	4,925	3,206
10%	9,851	6,413
15%	14,776	9,619
20%	19,702	12,826
25%	24,627	16,032

Table 1-C: Trawl landings of Groundfish by State for 2003

	Metric Tons			Total	Percentage		
	WA	OR	CA		WA	OR	CA
Whiting	17,013	36,581	1,740	55,334	30.7%	66.1%	3.1%
Non-whiting	5,206	9,362	7,306	21,874	23.8%	42.8%	33.4%
Total	22,219	45,943	9,046	77,208	28.8%	59.5%	11.7%

Table 1-D: Trawl landings of Groundfish by State for 2007

	Metric Tons			Total	Percentage		
	WA	OR	CA		WA	OR	CA
Whiting	45,672	42,801	2,968	91,441	49.9%	46.8%	3.2%
Non-whiting	2,968	8,075	6,220	17,262	17.2%	46.8%	36.0%
Total	48,640	50,876	9,187	108,703	44.7%	46.8%	8.5%

Source: PacFIN report r010Ctwl.P03 and r010Ctwl.P07

Table 1-E: Distribution between States of the Groundfish set aside for Adaptive Management using landings distribution from 2003 and 2007

Adaptive Management Percentage	Tons of fish provided by State using 2003 landings distribution							
	Washington		Oregon		California			
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	1,514	763	3,256	1,372	155			1,071
10%	3,029	1,526	6,512	2,745	310			2,142
15%	4,543	2,289	9,769	4,117	465			3,213
20%	6,057	3,052	13,025	5,489	620			4,284
25%	7,572	3,816	16,281	6,862	775			5,355

Adaptive Management Percentage	Tons of fish provided by State using 2007 landings distribution							
	Washington		Oregon		California			
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	2,460	551	2,305	1,500	160			1,155
10%	4,920	1,102	4,611	3,000	320			2,311
15%	7,380	1,654	6,916	4,500	480			3,466
20%	9,840	2,205	9,222	6,000	639			4,621
25%	12,301	2,756	11,527	7,499	799			5,777

Table 1-F: The magnitude of the Adaptive Management set aside compared to actual landings in 2003 and 2007

Adaptive Management Percentage	2003		2007	
	whiting	non-whiting	whiting	non-whiting
5%	8.9%	14.7%	5.4%	18.6%
10%	17.8%	29.3%	10.8%	37.2%
15%	26.7%	44.0%	16.2%	55.7%
20%	35.6%	58.6%	21.5%	74.3%
25%	44.5%	73.3%	26.9%	92.9%

Table 1-G: The percentage that the Adaptive Management set aside would need to be set at to achieve a given portion of actual landings in 2003 and 2007

Adaptive Management Percentage of current Landings	Percentage of IFQ needed to achieve a percentage of current landings using 2003 landings distribution					
	Washington		Oregon		California	
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	2.809%	1.705%	2.809%	1.705%	2.809%	1.705%
10%	5.617%	3.411%	5.617%	3.411%	5.617%	3.411%
15%	8.426%	5.116%	8.426%	5.116%	8.426%	5.116%
20%	11.234%	6.822%	11.234%	6.822%	11.234%	6.822%
25%	14.043%	8.527%	14.043%	8.527%	14.043%	8.527%

Adaptive Management Percentage of current Landings	Percentage of IFQ needed to achieve a percentage of current landings using 2007 landings distribution					
	Washington		Oregon		California	
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	4.641%	1.346%	4.641%	1.346%	4.641%	1.346%
10%	9.283%	2.692%	9.283%	2.692%	9.283%	2.692%
15%	13.924%	4.038%	13.924%	4.038%	13.924%	4.038%
20%	18.565%	5.383%	18.565%	5.383%	18.565%	5.383%
25%	23.206%	6.729%	23.206%	6.729%	23.206%	6.729%

Table 2-A: Estimated amount of groundfish, by speices, that would be available for distribution in the Pacific Groundfish Trawl IFQ Program

	MT ABC in 2010	Percent Trawl	MT for IFQ
Lingcod	4,829	40.0%	1,932
P Cod	3,200	98.0%	3,136
Sablefish - North	7,717	48.0%	3,704
Sablefish - South	1,500	42.0%	630
POP	1,173	99.0%	1,161
Shortbelly	6,950		0
Widow	6,937	91.0%	6,313
Canary	940		0
Chilipepper	2,576	80.0%	2,061
Bocaccio	793		0
Splitnose	615	97.0%	597
Yellowtail	4,562	88.0%	4,015
Shortspine north	1,916	98.0%	1,878
Shortspine - south	495	58.0%	287
Longspine - north	3,119	99.0%	3,088
Longspine - south	552	5.0%	28
Cowcod	14		0
Darkblotched	440	98.7%	434
Yelloweye	32		0
Black	1,781	0.0%	0
Minor SlopeRock - north	1,160	81.0%	940
Minor SlopeRock - south	626	63.0%	394
Dover	28,582	100.0%	28,582
English	9,745	100.0%	9,745
Petrals	2,751	100.0%	2,751
Arrowtooth	10,112	99.0%	10,011
Starry flounder	1,578	87.0%	1,373
Other Flats	6,731	97.0%	6,529
Other Fish	11,200		0
Longnose Skate	3,269		0
Dogfish		70.0%	0
Total Non-whiting	125,895		89,587
Whiting	234,545	42%	98,509

Notes:

ABC is based on Preliminary Annual Specifications document - August 2008, Table 2-1b, page 16-17

Trawl percentage is based upon GAC recommendation to PFMC April 2008, Table 1, page 4

The allocation for Sablefish takes 10% off the top for tribes, 8% off the balance for Open Access and then divided 42% for Fixed Gear and 58% for Trawl.

Whiting is 267,545 mt minus 35,000 mt for tribes. Percent is shorebased allocation.

Table 2-B: Amount of Groundfish that would be made available at various set aside percentages

Adaptive Management Percentage	Tons of fish provided	
	whiting	non-whiting
5%	4,925	4,479
10%	9,851	8,959
15%	14,776	13,438
20%	19,702	17,917
25%	24,627	22,397

Table 2-C: Trawl landings of Groundfish by State for 2003

	Metric Tons			Percentage		
	WA	OR	CA	WA	OR	CA
Whiting	17,013	36,581	1,740	30.7%	66.1%	3.1%
Non-whiting	5,206	9,362	7,306	23.8%	42.8%	33.4%
Total	22,219	45,943	9,046	28.8%	59.5%	11.7%

Table 2-D: Trawl landings of Groundfish by State for 2007

	Metric Tons			Percentage		
	WA	OR	CA	WA	OR	CA
Whiting	45,672	42,801	2,968	49.9%	46.8%	3.2%
Non-whiting	2,968	8,075	6,220	17.2%	46.8%	36.0%
Total	48,640	50,876	9,187	44.7%	46.8%	8.5%

Source: PacFIN report r010Ctwl.P03 and r010Ctwl.P07

Table 2-E: Distribution between States of the Groundfish set aside for Adaptive Management using landings distribution from 2003 and 2007

Adaptive Management Percentage	Tons of fish provided by State using 2003 landings distribution							
	Washington		Oregon		California			
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	1,514	1,066	3,256	1,917	155			1,496
10%	3,029	2,132	6,512	3,834	310			2,992
15%	4,543	3,198	9,769	5,751	465			4,488
20%	6,057	4,264	13,025	7,669	620			5,984
25%	7,572	5,330	16,281	9,586	775			7,481

Adaptive Management Percentage	Tons of fish provided by State using 2007 landings distribution							
	Washington		Oregon		California			
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	2,460	770	2,305	2,095	160			1,614
10%	4,920	1,540	4,611	4,191	320			3,228
15%	7,380	2,310	6,916	6,286	480			4,842
20%	9,840	3,080	9,222	8,381	639			6,456
25%	12,301	3,850	11,527	10,477	799			8,070

Table 2-F: The magnitude of the Adaptive Management set aside compared to actual landings in 2003 and 2007

Adaptive Management Percentage	2003		2007	
	whiting	non-whiting	whiting	non-whiting
5%	8.9%	20.5%	5.4%	25.9%
10%	17.8%	41.0%	10.8%	51.9%
15%	26.7%	61.4%	16.2%	77.8%
20%	35.6%	81.9%	21.5%	103.8%
25%	44.5%	102.4%	26.9%	129.7%

Table 2-G: The percentage that the Adaptive Management set aside would need to be set at to achieve a given portion of actual landings in 2003 and 2007

Adaptive Management Percentage of current Landings	Percentage of IFQ needed to achieve a percentage of current landings using 2003 landings distribution					
	Washington		Oregon		California	
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	2.809%	1.221%	2.809%	1.221%	2.809%	1.221%
10%	5.617%	2.442%	5.617%	2.442%	5.617%	2.442%
15%	8.426%	3.662%	8.426%	3.662%	8.426%	3.662%
20%	11.234%	4.883%	11.234%	4.883%	11.234%	4.883%
25%	14.043%	6.104%	14.043%	6.104%	14.043%	6.104%

Adaptive Management Percentage of current Landings	Percentage of IFQ needed to achieve a percentage of current landings using 2007 landings distribution					
	Washington		Oregon		California	
	whiting	non-whiting	whiting	non-whiting	whiting	non-whiting
5%	4.641%	0.963%	4.641%	0.963%	4.641%	0.963%
10%	9.283%	1.927%	9.283%	1.927%	9.283%	1.927%
15%	13.924%	2.890%	13.924%	2.890%	13.924%	2.890%
20%	18.565%	3.854%	18.565%	3.854%	18.565%	3.854%
25%	23.206%	4.817%	23.206%	4.817%	23.206%	4.817%

Accumulation Limits and Control Dates

The establishment of accumulation caps is something that must be done in the IFQ program. This is important to: 1) ensure that quota is distributed and remain in the hands of relatively many individuals, and 2) satisfy the Magnuson Act requirement that there are not excessive shares being held by any single entity.

The IFQ committee proposed that accumulation caps (or control caps) be established as the greatest percentage of catch, for any entity, that occurred during the window period for each species where quota will be issued. The window period is the time frame that will be used to determine catch history in calculating quota shares. The IFQ committee further recommended that in calculating the greatest catch for any entity, that the ownership arrangements that existed on the control date (suggested using January 1, 2004) should be used to define "entity" for the purpose of this calculation.

The IFQ committee also recommended that there not be exceptions to the accumulation limits through mechanisms such as a "grandfather clause". This is critical because exceptions would create two classes of entities within the program. Most people would be limited in accumulation to the establish cap levels while the other class would be allowed to exceed these caps. Since many entities in this program will be corporations, the opportunities for "grandfather" exceptions to expire are very limited. Ownership of shares would remain within a corporation even after the death of corporate owners.

Additionally, since quota shares will be issued to the current owner of permits when the program is implemented, it is impossible to know what level of accumulation will exist on January 1, 2010. If individuals know that they will be provided a grandfather exception 18 months from now, there would likely be an effort to further acquire permits in advance of the implementation date; thus threatening the goal of ensuring wide distribution of shares and preventing excessive share ownership.

When the development of this program began the Council set a "control date" and NMFS published this in the Federal Register. This control date put the world on notice that activities after this date may not qualify for the issuance of quota shares. If any entity has acquired trawl permits, after the control date, in an attempt to increase quota share holdings on the date of issuance and these holdings are greater than the accumulation limits, they should not be "grand fathered" into this program. They were on notice that this would not count. Anyone that did engage in this behavior either was not paying attention to the business or was gambling that some exception would be provided. In either case they should not be rewarded now with an exception to the accumulation rule that the vast majority of permit holders must live with.

One last detail, the IFQ committee recommended that **if** the Council were to choose to set the accumulation limits at levels lower than those recommended by the IFQ committee, the allocation should be made with a limited time grand fathering to allow the entity to divest the holdings that would be in excess of the Council's approved level but only up to the amount recommended by the IFQ committee.

The IFQ committee recommended setting the accumulation limit at the maximum that any one entity actually had caught. So if the Council were to set the accumulation limit at some low level, then it is possible that someone would exceed this limit at the out set of the program. This is a very different situation than described above where an individual may have ignored the control date warning. In this case the individual simply caught more fish during the window period than the Council believes is good for the industry.

If this situation were to occur, then it is important for the integrity of the program that the initial allocation made not exceed the maximum percentage realized by any one entity during the window period. In other words, the grand fathering only applies to the amount over the level approved by the Council and up to the maximum that any one entity actually had caught during the window.

Resource stuffing can not be rewarded.

Peter Leipzig
June 1, 2008

REASONS THAT HARVESTING ALLOCATIONS SHOULD NOT BE GIVEN TO FISH PROCESSORS

**Submitted to the PFMC by
Ralph Brown
10/27/2008**

The Pacific Fishery Management Council (PFMC) is developing a Dedicated Access Program (DAP) for the Groundfish Trawl Fishery along the West Coast of the United States. The probable format of the DAP for the portion of the fishery that delivers to shore-based processors (as opposed to processor that process on factory ships at sea) is an Individual Transferable Fisherman Quota (ITQ). The simplest description of an ITQ is that the available quota is allocated to individual fishermen on an annual basis, who then can plan their fishery around a business plan that works best for boat and the businesses that purchase that fish from the boat. The amount of the individual allocation will be a percentage of the total annual quota, based on an as yet undecided formula. Once the annual percentage is determined it will be a permanent allocation that can be kept, or divided and traded or sold.

Most of the major components of the ITQ program are non-controversial; however, establishing the initial allocation has not been settled and is very contentious.

Very early in the process, processors started making statements that they were entitled to 50% of the harvesting shares of the fishery. They claim this entitlement is based on their investment in the fishery and should be based on their harvesting history during a certain time frame. Fishermen are opposed to allocations of harvesting privilege to processors.

During the development of the ITQ program, public comments were taken at several meetings of the PFMC. While processors used this opportunity to push their claims on harvesting shares, the fishermen and environmentalists that were present had to comment on other aspects of the program, such as observer coverage, and methods to address unintended consequences of the program. While these elements are critical to the functioning of the program, public comment time spent on them could not be spent on the issue of harvest allocations to processors.

Recently comments have been made by members of the PFMC that they have not heard well reasoned arguments against allocation of harvesting shares to processors. This paper is an attempt to address this and give those reasons.

WHY PROCESSORS CLAIM TO NEED AN ALLOCATION

The rationale given before the PFMC for allocating harvesting shares to processors has evolved over time, but in general, the claim by processors is that without an allocation of harvesting shares they will be put out of business and lose their investment in processing equipment and plants because boats will sell their fish to other markets.

They have never adequately explained why that is more likely to happen with ITQs than under the present system where all of the fish is allocated to fishermen, and there are no restrictions on where a boat can sell fish.

PROTECTING EXISTING COMPANIES FROM COMPETITION IS BAD PUBLIC POLICY

Processors make the claim that without protection, fishing vessels will find or develop new companies to sell their fish to and existing processors will be harmed.

Fishing vessels will only move to other companies if there is a benefit to them to do so. Benefit usually is in the form of higher prices for their fish or better conditions for the sale of the product. New companies can only pay higher prices than existing companies if they are somehow better at processing and selling the fish. Unless the new processing company can make more money on the processing of the fish than existing companies, they cannot pay higher prices.

Existing companies only need protection if there is a better way to do the processing and marketing of fish than they are currently doing. However, if there is a better way to do the processing and marketing of fish then encouragement of this is a better public policy than trying to protect the less efficient company.

HOW THE PROCESSOR ALLOCATION WILL REALLY BE USED

The processors claim that the harvesting rights that they will be allocated will be used to entice boats to sell to them, by allowing the boats to fish the company quota in addition to the boat controlled quota.

While the description by the processors of how they will use this allocation may be accurate as far as it goes, there are several details that are left out.

The first use of the processor allocation will be on processor owned boats. Whatever is surplus to their vessel needs will be available for lease to other boats.

To get a lease of the processor quota, the vessel will be required to sell all of its products to the processor, regardless of the fishery it is in, at prices and conditions, dictated by the processor. A letter to the PFMC by the West Coast Processors Association actually states:

“Our intent is to use quota directly allocated to our processors as an enticement to vessels to deliver to historical processors. In other words, we want to put our quota on boats that fish for our plants, so long as we are the purchaser of all fish caught by that vessel.”

The boat will be charged a lease fee to use this quota. Quota lease prices in other regions have been as high as 50% of the ex-vessel price of fish.

THE RESULT OF THIS USE OF QUOTA

The prices paid to the boats that lease processor quota will become the basis for the pricing of all other product purchased by the company, giving the company the ability to dictate prices to the entire fleet of boats who sell to them, and to a large degree for the larger companies, this gives control to the processor over the entire fleet. The fleet will not have any ability to negotiate with the companies and essentially become “price takers” at the mercy of the companies.

The lease amounts paid by the boat effectively work as a discount on product purchased by the company such that the real price of fish paid by the company is the “vessel price” minus the lease fees paid back to the company.

This use of the quota results in a company that not only can dictate to its fleet the price of fish but also enjoys a tremendous price advantage over companies that don't control quota. Because the boat has to

sell all of its products to the company, not just groundfish, the processor who has quota enjoys this advantage for all fisheries that the company participates in, not just groundfish.

The effects of this are even more profound for the West Coast of the United States than they might be in other parts of the world. The degree of consolidation among the West Coast fish processing industry is such that the companies have tremendous control over the industry already, and have had for many years. Boats currently have very little opportunity to negotiate sale conditions for their fish or to switch to other companies to sell their fish. It is predictable that boats will not be given markets for their fish unless they also fish the company quota at prices and conditions dictated by the companies. This gives the few processors that get quota from the Groundfish ITQ program the ability to control the entire West Coast processing sector.

Given that the processors that are the largest processors of groundfish are also the largest distributors of fish along the West Coast; the discounted price of fish that they will enjoy also gives them control over the distribution sector of the industry.

MONOPOLY OF THE WEST COAST SEAFOOD INDUSTRY BY A VERY FEW COMPANIES IS NOT GOOD FOR THE INDUSTRY

Monopolies are generally viewed as undesirable in United States Industries. The problems of no competition, such as inefficient companies, lack of product development and arrogance by the companies resulting in poor customer service are generally well recognized as problems resulting from monopolies. Ultimately allowing a few companies to monopolize the west coast seafood industry destroys the ability of the industry to survive in a world market.

THE POTENTIAL FOR MONOPOLIZATION OF THE WEST COAST SEAFOOD INDUSTRY IS VERY REAL

The potential for the monopolization of the West Coast seafood industry is very real. We are very close, if not at, that stage now. Giving a few companies additional control over the industry will make monopolization a certainty.

Fishermen are already afraid of the companies that they have to deal with, and are very afraid of giving these companies more control.

CONTROL OF THE INDUSTRY IS NOT GOOD FOR THE INDUSTRY, FOR COMMUNITIES, OR FOR THE FISH

Giving control of the industry to a few companies is obviously not good for the seafood industry. What may not be quite as apparent is that it is not good for coastal communities or for the fish themselves.

CONSOLIDATION MEANS FEWER COMMUNITIES HAVE PROCESSING BUSINESSES

The consolidation of the processing industry that has already occurred has resulted in fewer communities getting the benefit of seafood processing. As a few companies started dominating the seafood processing sector, other plants were forced to close, either through competition or by the stronger company buying the completion. The companies that closed have not been replaced; instead fish that was delivered and processed in smaller harbors has been moved to a few concentrated processing centers. This has occurred either because the stronger processor has developed buying stations in the ports where fish is purchased and then shipped to the processing centers or because the fleet has had to move to find a buyer.

The economic impact of fish that is delivered into a port is a combination of the economic impacts of the money paid to the boats and of the money paid to processing plant employees and suppliers. When processing plants close, much of the value of the fish delivered into a community is lost. When the fleet has to leave, all of the value of the fish delivered into a community is lost.

CONSOLIDATION WILL CONTINUE IF PROCESSORS GET HARVESTING ALLOCATIONS AND FEWER COMMUNITIES WILL GET THE BENEFIT OF THE FISHING INDUSTRY

Today there are only five ports along the West Coast that have a substantial seafood processing industry, and only a few more that have any processing at all. Three companies process 80% of the non-whiting groundfish landed along the west coast and virtually all of the non-whiting groundfish is processed by only five companies. If these companies gain more control of the seafood industry by being allocated harvesting shares of quota, there will not be any increase in the number of communities that receive benefit of the west coast trawl industry and, in fact further reductions in the number of communities that have a fishing industry will occur.

The processing companies have said that they will use the fish to attract boats to sell to fish to them. They will use this fish to attract boats to the lowest cost locations for the processor to purchase fish. This will not be in ports where the company has to pay the cost of shipping to its processing facility. Boats will have to leave small port with only buying stations and move to those one of those ports with processing facilities. Once the boats leave the port, the port will lose its processing infrastructure and will not be able to support processing in the future. These ports will probably never get their fishing industry back.

GIVING HARVESTING ALLOCATIONS TO PROCESSORS WILL NOT PROTECT COMMUNITIES

Processors assert that communities will be protected by giving harvest quota to processors. Nothing could be farther from the truth. Harvest allocation given to processors is not tied to any community. West Port, Garibaldi, Coos Bay, Crescent City, Monterrey are all examples of communities that have had processing facilities bought by larger companies only to have the facility shut down and the fish processed in another place. Many times this has resulted in the fishing fleet being forced to move away from their home in order to continue selling fish. The processing jobs are, of course lost to the community

Other businesses are hurt in communities when the fishing industry is lost. Empty harbors are not good for the tourist industry. It is not possible to buy locally caught seafood in most ports along the coast. It is difficult to find Oregon caught groundfish in Oregon.

In most cases, the owners of the few companies left don't even have personal ties to the communities along the coast, as they do not live in the communities where they process fish. They do not experience the loss to the community when the fishing industry is lost. Fishermen do.

Under the ITQ plan being considered by the PFMC, harvest allocation given to processors will be based on processing history, with the largest processors getting the largest share. Large processors are located in communities with large landings of fish and therefore are not vulnerable to losing the processing industry.

Small ports with small fishing industries will get little, if any, fish allocated to processors in their ports. Since the principle use of the harvesting allocation that goes to processors is to give them a competitive

edge of other plants, processors in small ports are more likely to go out of business. New processing companies that try to replace failed companies will find it nearly impossible to compete.

Giving harvesting allocation to processors under the plan proposed in the PFMC ITQ proposal will cause further constriction of the fishing industry, with smaller ports losing their fishing industry completely.

Large ports with large fishing industries are not helped, as the size of the fishing fleets in those ports will guarantee that the processor sector will be located there.

GIVING PROCESSOR ALLOCATION TO PROCESSORS WILL CAUSE MORE CONSOLIDATION AMONG THE HARVESTING SECTOR

Giving harvesting allocations to processors will cause the size of the fleet to be reduced more than it would be if all harvesting allocations were distributed to the boats. The use of the processor owned harvest allocation to lower ex-vessel prices was described above. The lower price paid to the boat for groundfish means that only boats that have large landings of groundfish will be able to stay in business, resulting in an industry that supports fewer boats and fewer people employed in the business.

The resulting weak harvesting sector will always be a threat to communities, and to local processing.

ALLOCATING HARVEST SHARES TO LARGE PROCESSORS CAN HARM THE FUTURE DEVELOPMENT OF THE PROCESSING INDUSTRY

The implementation of an ITQ system for the West Coast Trawl fishery is expected to result in larger harvests of trawl caught fish. This is a result of vessels being able to change their fishing practices to catch more of the available healthy stocks of fish while avoiding catching stocks of lesser abundance. This will not happen overnight but the ability to harvest these healthy stocks of fish is a strong incentive to innovate.

The potential benefits of larger catches are not evenly spread along the Coast but are of course more likely to be realized in ports adjacent to areas of the coast where surplus stocks are found. The State of Washington is located to receive major harvesting benefits from the ITQ program.

Reductions of catches of healthy stocks of fish due to restrictions on Canary Rockfish have been greater there than in other areas of the coast. Washington has a large continental shelf area off of its shores. Because of this much of its fishery was found in depths where Canary rockfish lived and therefore has been curtailed to protect Canary Rockfish.

Landings of rockfish, much of it yellowtail rockfish, into Washington in 1999 were 4,625 Metric tons (mt). They had dropped to 858 mt by 2005. Similar catch histories for arrowtooth flounder and dover sole occurred. Arrowtooth landings were 4,133mt in 1999 and only 940 mt in 2005, while dover fell from 1,130mt in 1999 to 742mt in 2005. These are abundant species of fish. The 2008 Optimum yield (OY) for Yellowtail rockfish is 4,548 Mt. Arrowtooth is 5,800mt and dover is 16,500. Coastwide catches are much lower than OYs for these species, indicating the amount of growth that is possible.

Washington is ideally suited to have these fish delivered and processed in its ports. This will require new processing capability. This is unlikely to develop if harvest allocations are given to existing processors. Processors that would get allocations based on past processing have plants in the relatively nearby ports of Astoria and Warrenton, and do not have plants that process groundfish on the coast of Washington. They will use their allocation to induce boats to deliver the increased catch of yellowtail,

Many of the plants are not even dependant on local fish for their processing. Recently the trawl fleet along the coast tied up in an attempt to force processors to negotiate the terms of the sale of fish. Some processing plants didn't even stop working. They just bought fish from boats in Canada and processed it in west coast plants.

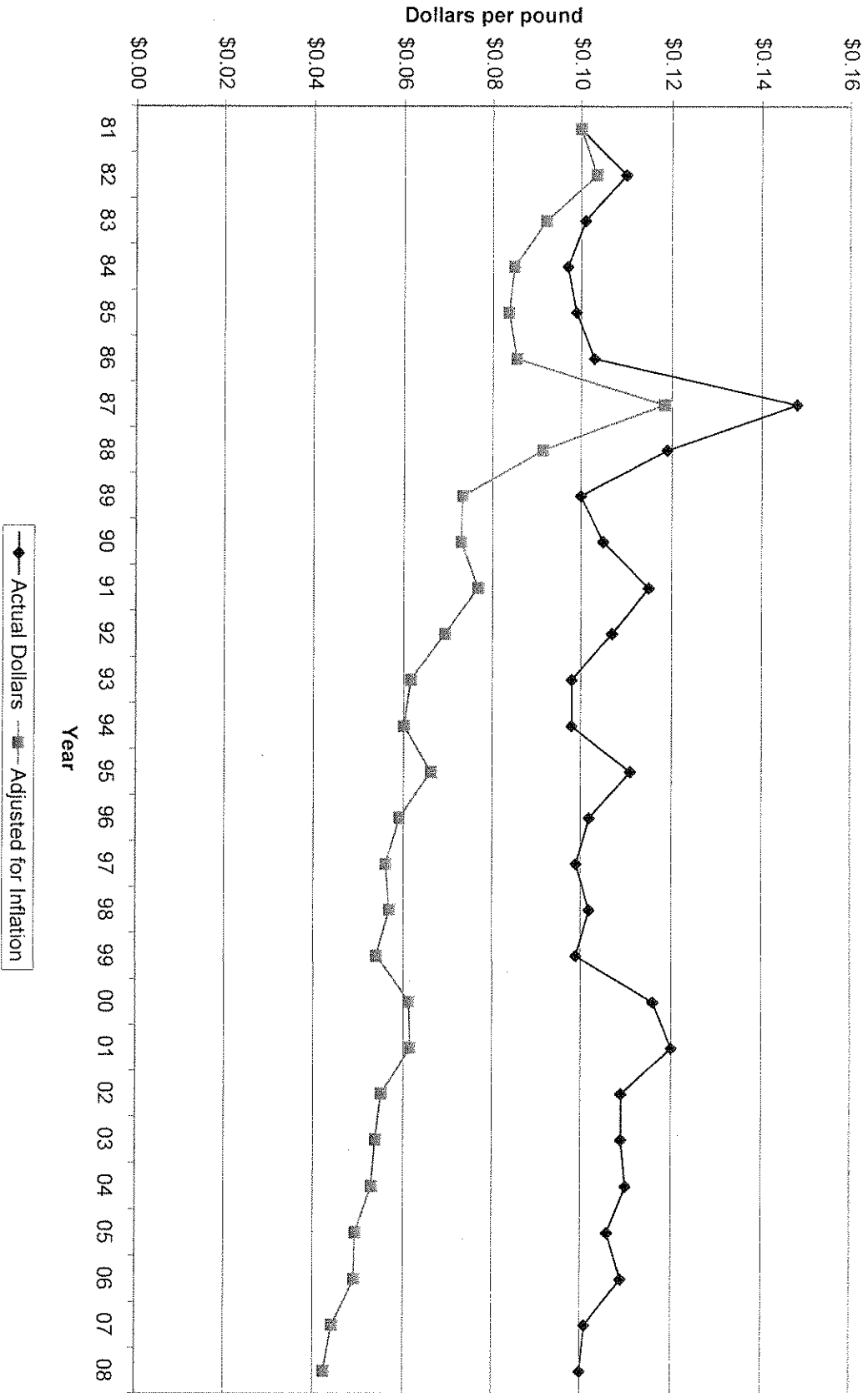
ALLOCATING HARVESTING QUOTA TO FISH PROCESSING COMPANIES IS BAD PUBLIC POLICY

The forgoing document has given numerous reasons why it is bad public policy to give harvesting allocations to processors. No one but a few processing company owners will benefit. Most people along the coast will be harmed. The fishing fleet will be reduced more than necessary, processing will become even more concentrated into a few ports, development of new processing capability and techniques will be prevented and conservation benefits to fish stocks normally realized by ITQ programs will be reduced or non-existent. The processors arguments in favor of giving harvesting quota to processors have been shown to be self-serving and actually harmful to the seafood industry along the West Coast.

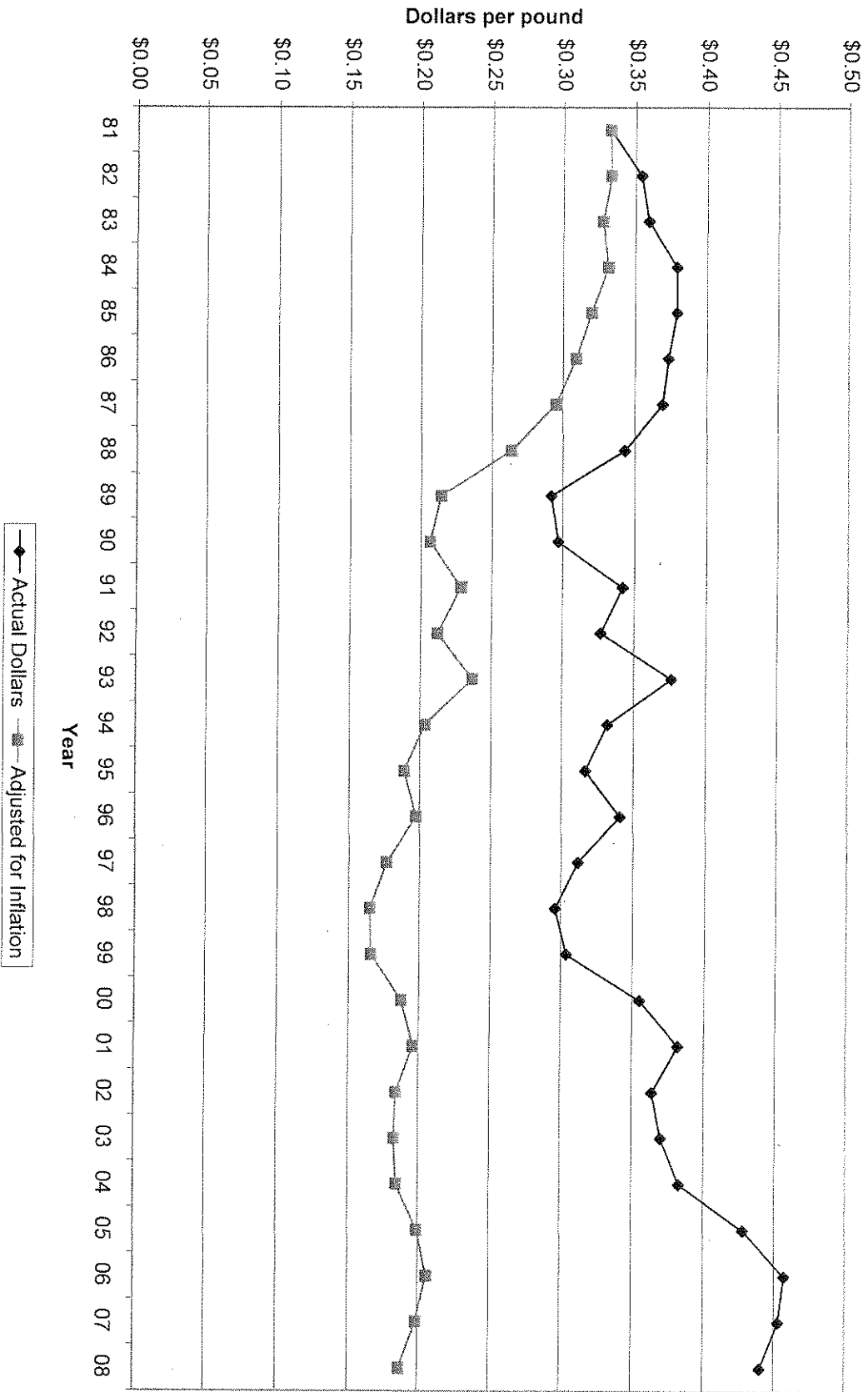
Development of the ITQ program has the potential of producing a tremendous benefit to the West Coast. Everyone wins in a well designed program. The industry is enhanced, communities enjoy the benefit of a larger and more stable fishing industry, and the environment benefits by the alignment of strong economic incentives with good stewardship of the resource.

Giving harvesting allocation to processors negates all of those benefits and turns a winning solution to resource management into a loss.

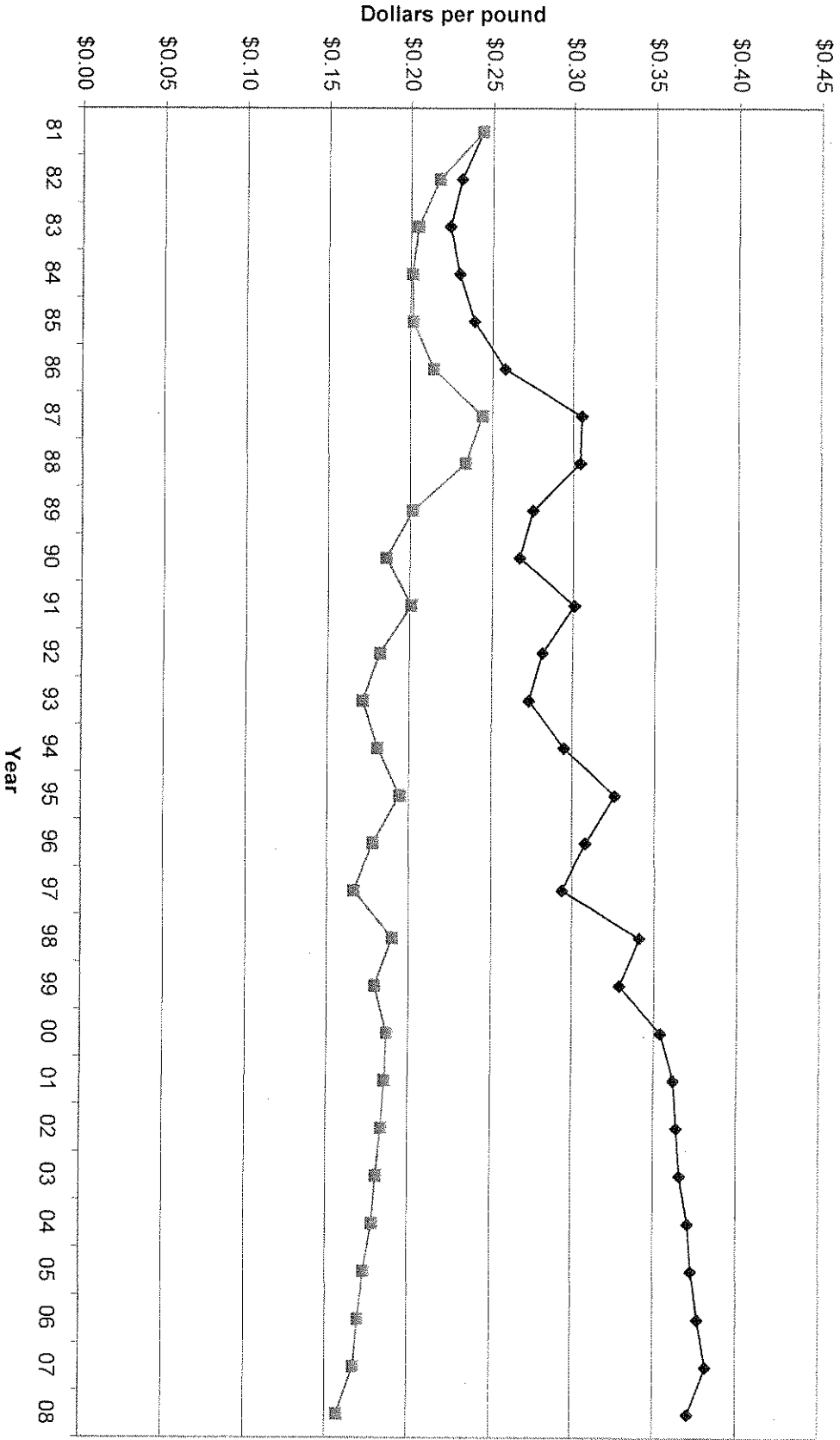
Exvessel Price of Arrowtooth Flounder



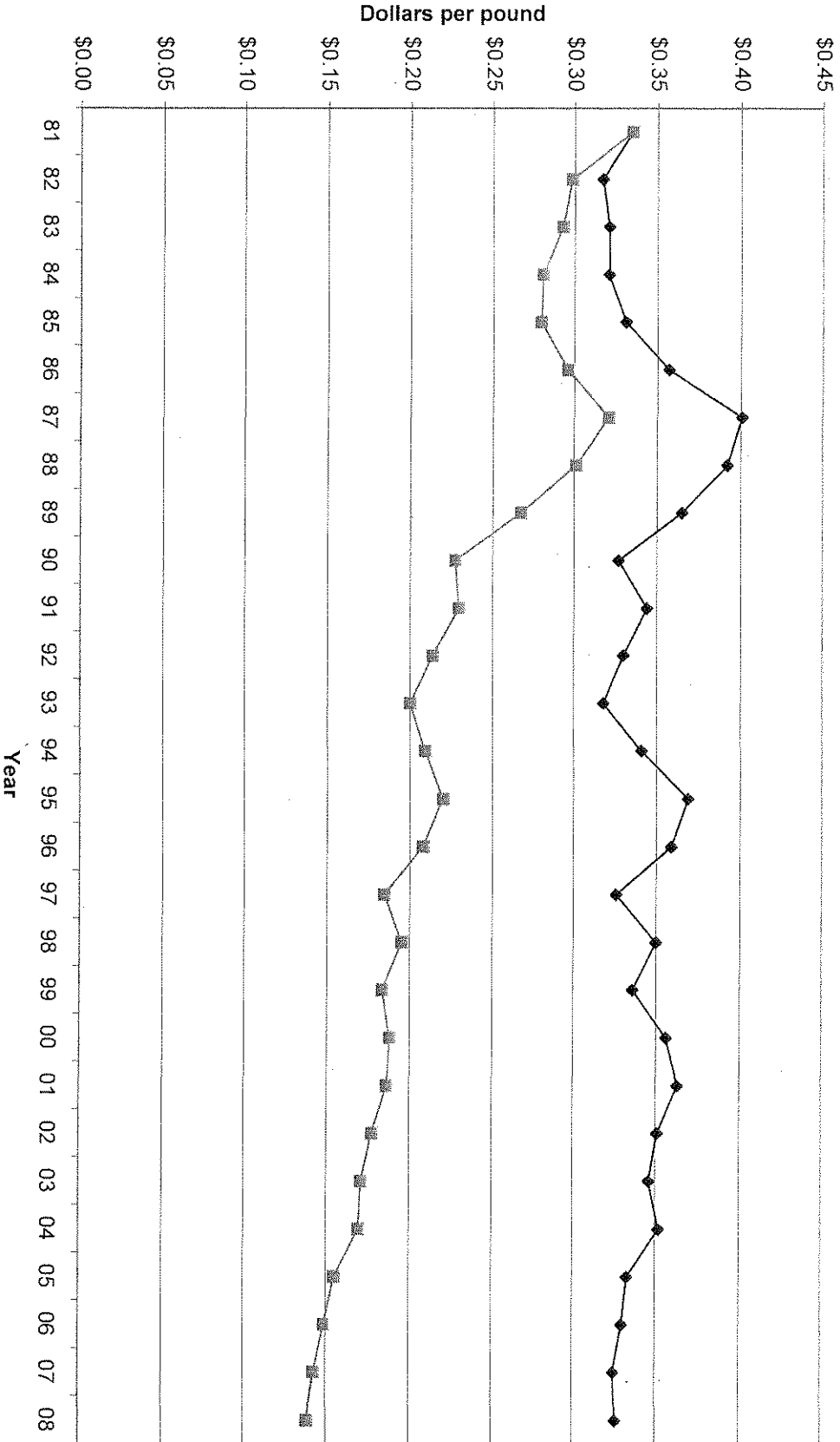
Exvessel Price of Sanddabs



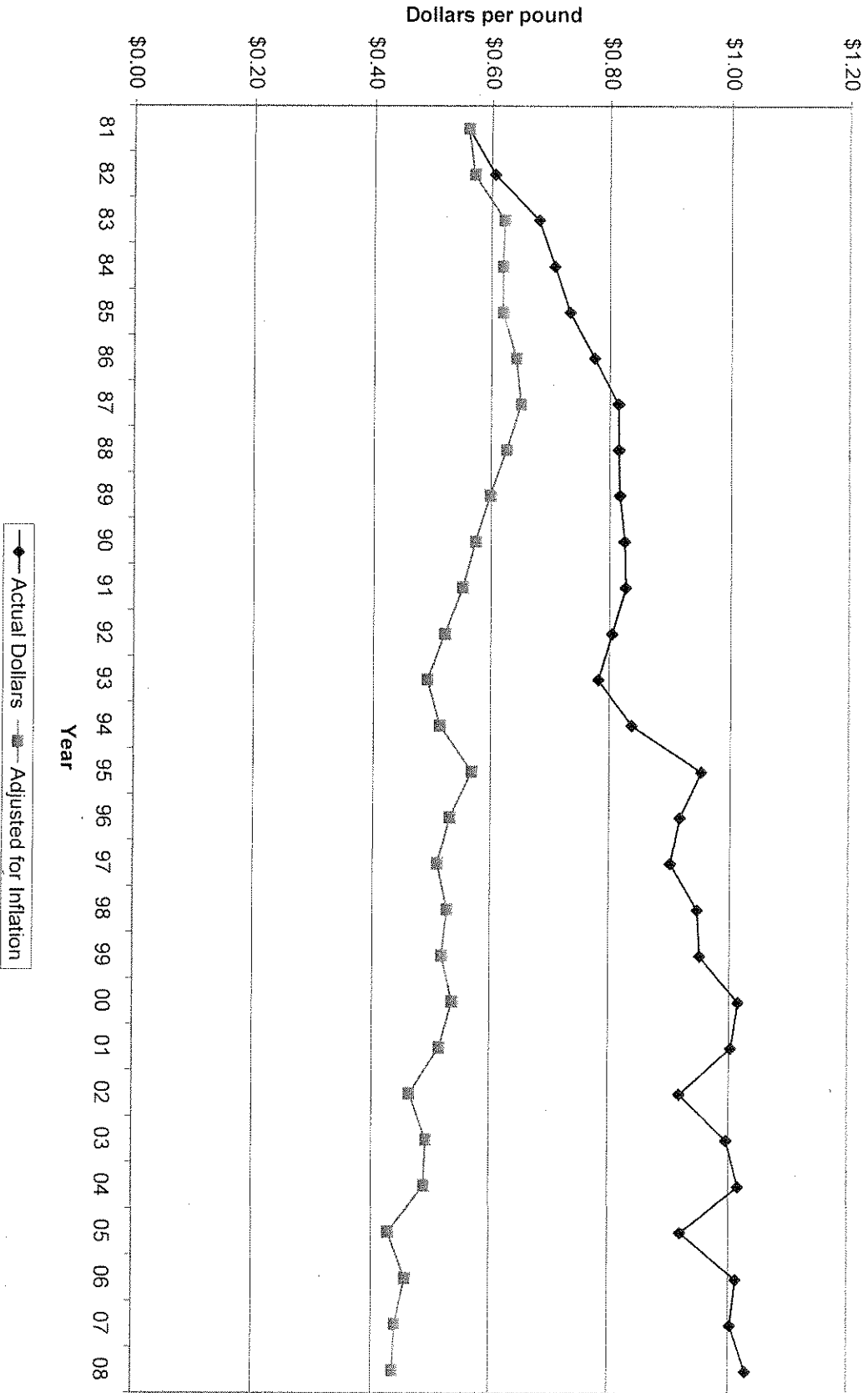
Exvessel Price of Dover sole



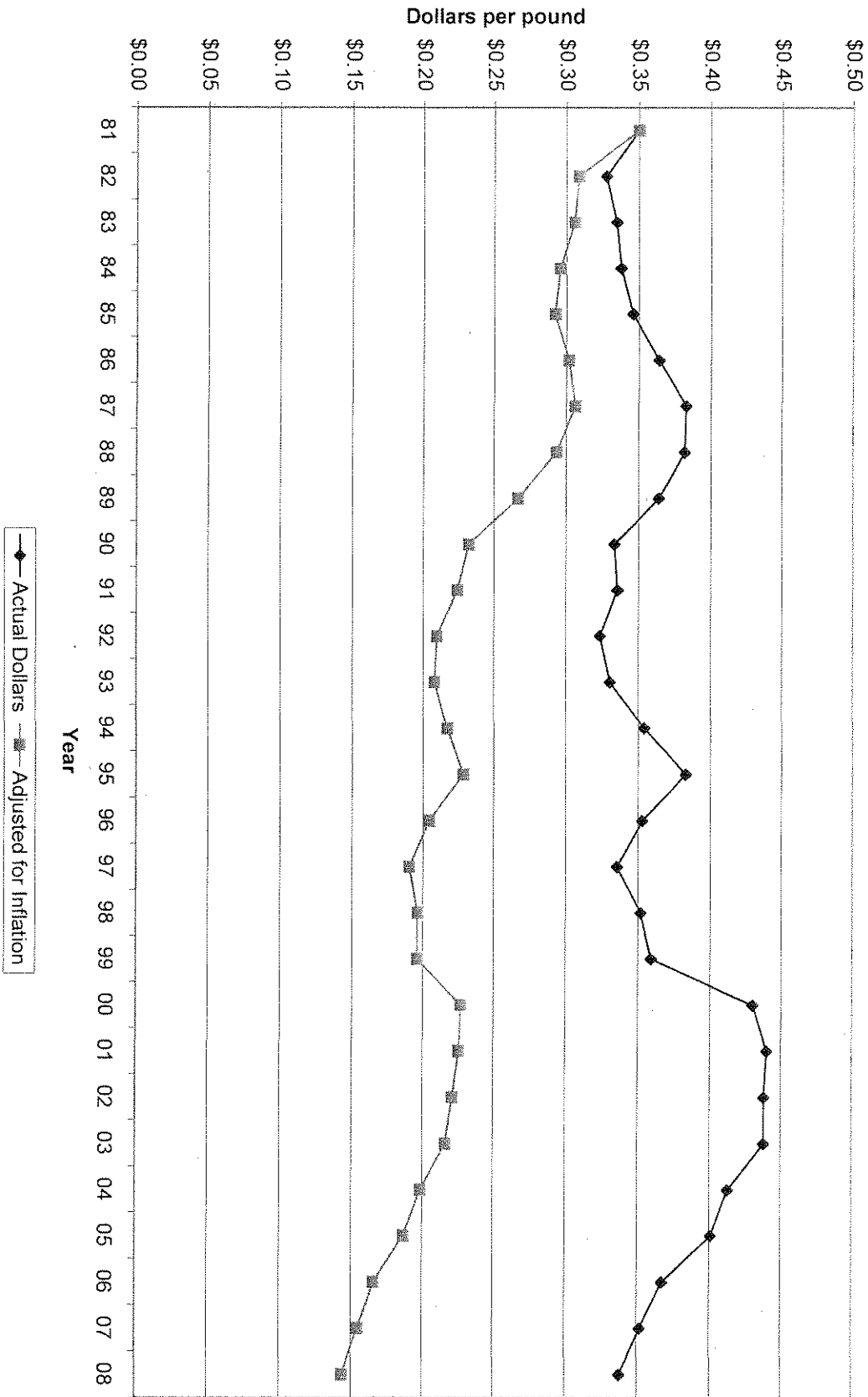
Exvessel Price of English sole



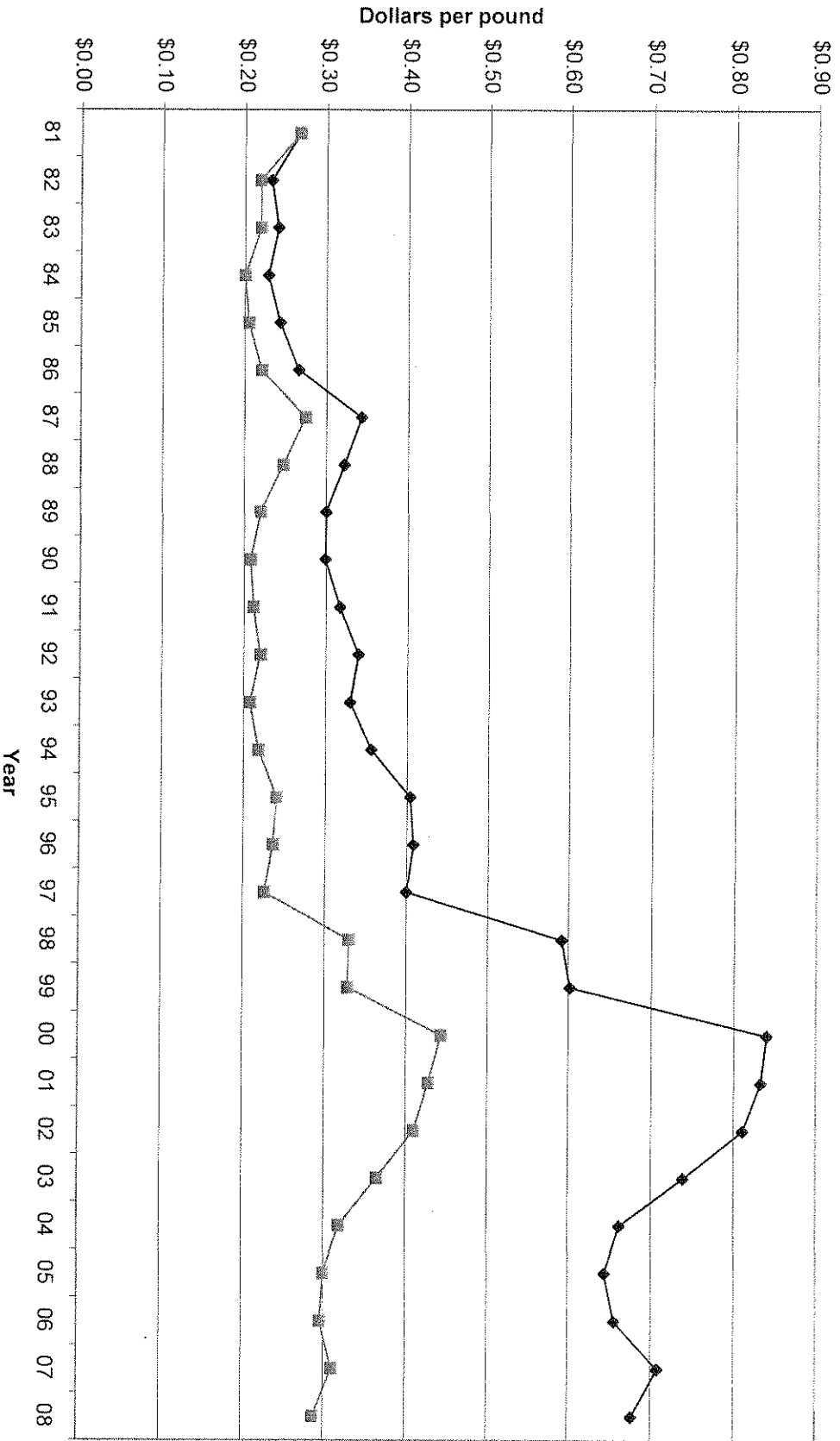
Exvessel Price of Petrale sole



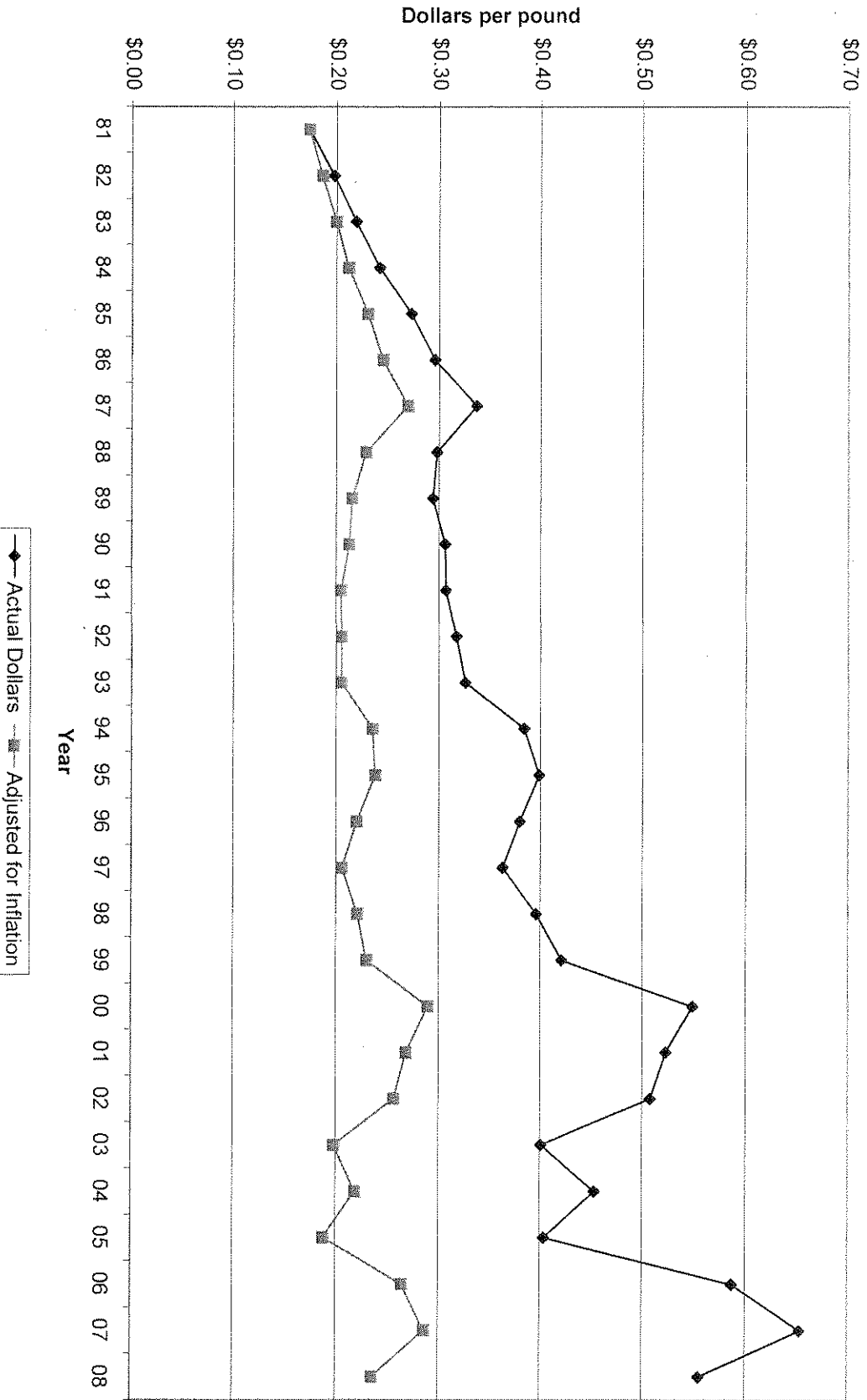
Exvessel Price of Rex sole



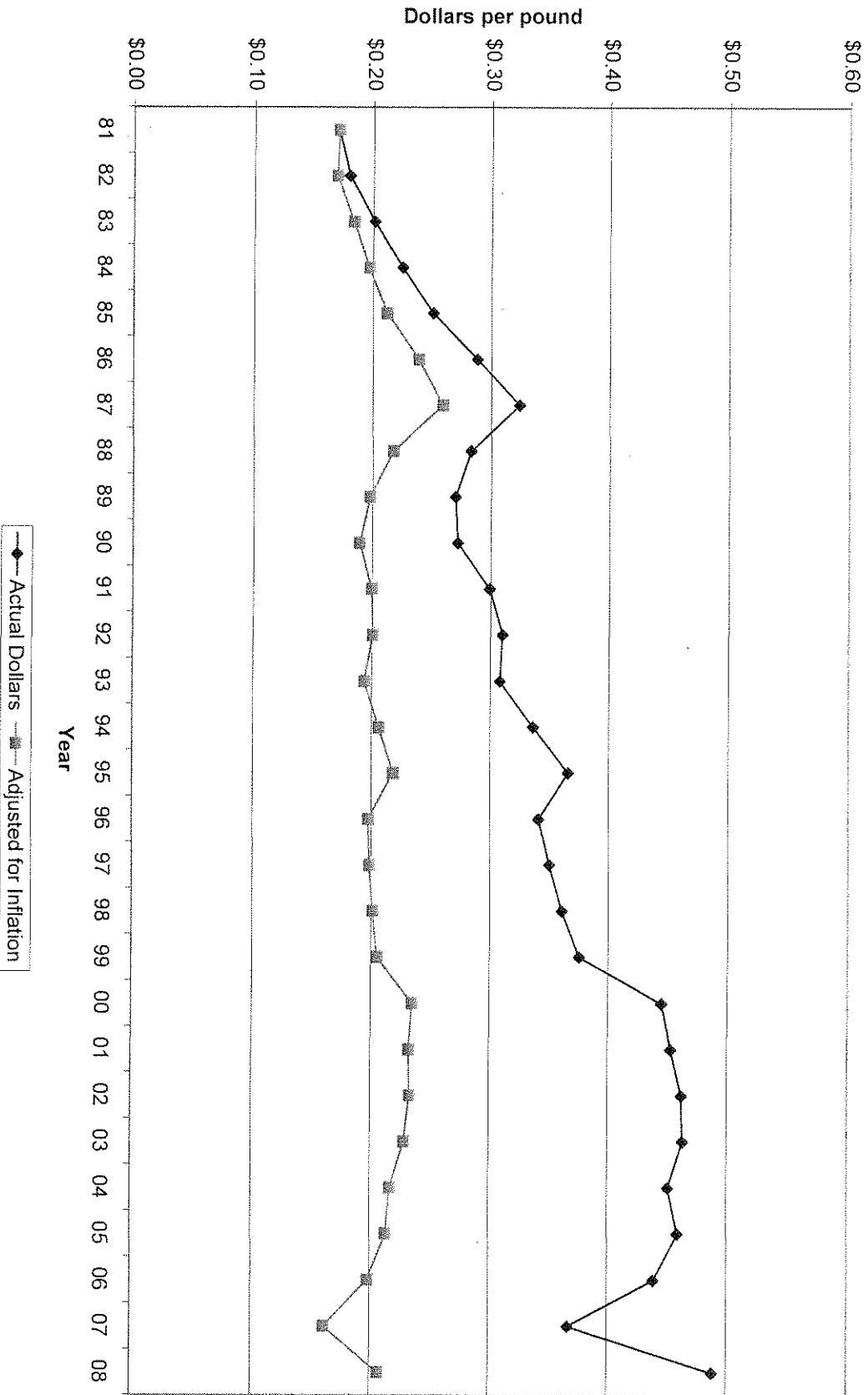
Exvessel Price of Lingcod



Exvessel Price of Chilipepper rockfish



Exessel Price of Yellowtail rockfish



Exvessel Price of Pacific cod

