

E.11. Accumulation Limits and Divestiture

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Topics for This Presentation

Overfished species (OFS) and Pacific halibut

- Control Limits and Vessel limits
 - Unused QP approach for vessel limits
 - Are QP control limits needed?
 - GAC recommendation to allow QP transfers only to vessels.
- Council discussion on the application of control limits to cooperative arrangements such as risk pooling of OFS QP
- Divestiture

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Preliminary Preferred Limits

OFS

- Control limits set at maximum initial allocation to a permit
 - reduced for bocaccio, cowcod and yelloweye
- Vessel limits at 1.5 x control limits

Halibut – range

- Control limits – 1% - 8%
- Vessel limits – 1.5 x control limits, but not more than 10%

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Unused QP Approach for Overfished Species (OFS) Vessel Use Limit

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Unused QP Approach

- Caps the amount of unused OFS QP on a vessel but not used OFS QP
 - A vessel can acquire OFS QP up to the limit then replace the used QP, as they are able to and the need arises.
 - Relies on strong incentive to avoid OFS

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Why Consider This Approach

- More leeway for error in setting the right limit
- Allows for lower OFS vessel limits
 - using this approach those lower limits can be imposed without constraining fleet consolidation

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Why Consider This Approach

- More leeway for error in setting the right limit
 - Getting the OFS vessel limit right is tough.
 - If set too low,
 - “Straight” approach shuts a vessel down.
 - Unused approach provides an opportunity to keep fishing if a vessel hits the limit (if they can get the QP)
 - Option of selling targets species QP potentially reduces profits, and changes distribution of benefits among communities, crew, etc.
- Allows for lower OFS vessel limits.
Lower limits under this approach:
 - may keep OFS QP control dispersed longer into the season
 - potentially maintaining more OFS QP sellers and a more active market
 - its easier to make adaptive adjustments later in the program by raising limits than by lowering them
 - Using this approach, these ends can be achieved without substantially reducing consolidation benefits.

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These Reasons are Reflected in GAP Recommendations and Rationale from March

Low vessel limits (equal to control limits)

- did not need to worry about getting the vessel limit exactly right
- allows vessel a chance to continue fishing if they have a “disaster” tow.
- “more likely to be able to find someone to buy from at a reasonable price”

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Concerns

- Lack of an ultimate limit.
- Potential for a race for fish.

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Lack of an Ultimate Limit

- Ultimately, vessels would not have a limit on their use of OFS QP. This could
 - reduce incentive for OFS avoidance, and
 - maintain high bycatch vessel in the fishery
- There are strong incentives to avoid OFS
 - avoid cost of acquiring QP
 - conserve OFS QP to sell (“opportunity cost”)
- Over the long run those who are less skilled in avoiding OFS will likely depart.
- A high “straight” limit could be provided as a back stop.

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Potential for a Race

- In anticipation of high OFS QP prices later in the season, vessels would fish their target species early so that if needed they can recharge their vessel’s OFS QP early in the season.
- A concern if OFS QP markets are strongly seasonal.

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Dynamics of QP Market

- If strong late season prices are anticipated.
 - buyers will want to buy early (tending to increase early season demand and prices)
 - sellers will want to sell late (tending to increase late season supply and decrease prices)
 - expectation of price seasonality will tend to reduce seasonality.
 - may be that prices are just high and relatively constant

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Process for Changing Limits

- Consider specifying adjustments to
 - levels of vessel limits
 - the vessel limit approach (unused or “straight”)
- through the biennial specifications process.

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Are QP control limits needed?

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Are QP Control Limits Needed?

- Control limit on QS
- Vessel limit on QP
- No limit on QP that is not in a vessel account.

- GAC was asked if a control limit on QP is needed.
- GAC provided a recommendation intended to achieve that end and other objectives by allowing QP to be transferred only to and among vessel accounts.

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Mechanism for Effectiveness

- Makes it so there is no way to accumulate QP outside the vessel account.
 - Folks get QP for their QS (QS is capped)
 - The only place they can transfer QP to is the vessel. (Vessel QPs are capped).
- Also, ties QS more closely to vessels.

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Application of Control Limits to Cooperative Ventures (e.g. OFS risk sharing pools)

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Application of Control Limits to Cooperative Ventures

- Good for Council to discuss this issue and articulate its general intent for NMFS to take into account while developing regulations and administering the program.

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Example

- Overfished species risk/insurance pool:
 - contract among individuals
 - individuals retain ownership of QS
 - individuals retain ownership of QP until the QP are transferred to the vessel account, on an as needed basis under the terms of the contract

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Other Examples

- Pool agreement among QS holders whereby QP for all species are shared but only one or a few entities operate a vessel, and as QP is needed it is transferred to that entity.
 - Backstop would be the vessel limit.
- Pool agreement among QS holders whereby QP is transferred to the accounts of vessels delivering to a certain processor on an as needed basis to insure that processors ability to sustain its processing activity.

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Divestiture

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What happens to QS that would go to someone in excess of control limits?

- The final Council action would reallocate the QS to those below the limits.
- In March, the Council agreed to consider divestiture.
- Divestiture would allow individuals to receive that QS and then divest (sell) to someone else.

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Who Is Most Affected?

- Entities holding multiple permits at the time of initial allocation.
 - Single permit holders should be under the limits for most species.

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Main Types of Effects

- Benefits from revenues from sale.
- Benefits from choosing who to sell to.
- Whether or not higher control limits have been established for CFAs.
- Effect on allocation to those under limits.

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With Divestiture

- Get the QS then divest
 - more revenue and flexibility to direct sales
- Higher control limits for CFAs may be in place
- No QS to roll downhill to those under limits.

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Without Divestiture

- Sell permits in advance of initial allocation
 - there is more uncertainty and permits are “lumpy”
 - less revenue and flexibility
 - may have to divest to levels below control limits.
- Higher control limits not in place for CFAs.
- Selling of permits in advance of initial allocation will reduce the amount of QS that rolls downhill (Table 7 of E.11.b, Attachment 1).

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Cut-off Date

If there is divestiture, should there be a cut-off date on accumulation of additional permits?

There may be incentive to accumulate additional permits

- value of the permit plus QS after QS issuance may be greater than before QS issuance, creating some profit opportunity
- after initial issuance there is a greater flexibility to direct QS to those with whom one expects to have a long term beneficial relationship

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Cut-off Date Options

- The November 6, 2003 control date?
- A more recent date? Examples:
 - Date on which a “no grandfather clause” option was explicitly included in the package (Nov 2007).
 - Date on which the “no grandfather clause” was adopted (Nov 2008)
 - This Council meeting.
 - Some other date for which rationale can be provided.

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