

WEST COAST SEAFOOD PROCESSORS ASSOCIATION

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May 27, 2009*

Mr. Don Hansen
Pacific Fishery Management Council
7700 NE Ambassador Place, Suite 101
Portland, Oregon 97220-1384
Re: Agenda Item E.11, Amendment 20: Accumulation limits and divestiture

Dear Chairman Hansen:

We believe the council acted prematurely in March by adopting accumulation limits without giving the Groundfish Management Team (GMT) enough time to develop fully its suggested revenue-based framework, in spite of recommendations from the GMT that further work was needed. With this in mind, we would like to call the Council's attention to the attached white paper written by Bruce Turris, president of Pacific Fisheries Management Inc., in British Columbia.

The British Columbia quota system, now in existence for more than a decade, is often touted as a success and served in part as the model for our proposed Individual Quota (IQ) system. However, it appears that fishery managers there made a similar mistake in setting accumulation limits, as is pointed out in the paper, which raises the issue of increasing the Total Holding Caps (the Canadian version of our control caps) in their groundfish fishery so vessels can maintain economies of scale and be economically viable when faced with the additional costs of management under an IQ system.

The Pacific Coast groundfish fleet may face the same situation. While it is probably too late to revisit the accumulation limits, we should take this lesson to heart when considering divestiture of quota shares (QS) above the accumulation limits. We suggest divestiture of QS should not be mandated right away. Ownership of QS in excess of accumulation limits should continue for five years, with 100 percent usage of QS and quota pounds (QP) that are owned or controlled as of the date of this council meeting. At the planned five-year review date for the IQ system, the Council could then determine whether the accumulation limits had been set properly (i.e., whether vessels can operate economically under those limits). At that time, the Council can adjust the accumulation limits if necessary or could require divestiture.

This approach would help alleviate unintended consequences and minimize any impacts that are unknown at this time. The fishing industry would benefit by having more time to realize the impact of QS and QP ownership and adjust their fishing patterns.

Sincerely,



Susan Chambers
Deputy Director

DISCUSSION PAPER

ON

**TOTAL HOLDINGS CAPS IN THE
GROUNDFISH TRAWL FISHERY**

MARCH 2009

Introduction

Over the last couple of years, a number of vessel operators have expressed concerns about Total Holdings Caps. They believe that licensing changes alone will not be enough by themselves to kick start and re-invigorate the groundfish trawl industry and bring it out of the current economic problems caused primarily by fluctuating exchange rates, increasing fuel prices and operating costs and the onset of a worldwide recession. Some also suggest that the current rules limit the industry's ability to adapt to an ever changing economy and world market. For these reasons, it has been suggested that rule changes allowing for the stacking or expansion of Total Holdings Caps should be considered.

Total Holding Caps are a significant component of the negotiated IVQ/GDQ plan introduced in 1997. The plan was the product of considerable consultation with industry, GTAC (Groundfish Trawl Advisory Committee) and GSIC (Groundfish Special Industry Committee) on how to reform the groundfish trawl fishery to improve resource sustainability and economic viability. Therefore, any changes to Total Holdings Caps need to be discussed with all industry participants.

GTAC has recommended that a background discussion paper on the Total Holdings Cap issue be sent out to industry participants and that feedback be collected and provided to GTAC and GSIC for consideration and possible revisions to future management plans.

Background

When the IVQ program was being designed and developed, one of the concerns raised was that quota may accumulate onto a small number of vessels resulting in a large loss of crew employment and a concentration of the benefits from the fishery by only a few vessels. At the same time, however, most in the industry believed that the fishery, even under an IVQ program, could not support 142 active vessels annually. Not only was there not enough value in the fishery, but the added costs and operational problems associated with 100% at-sea observer coverage was expected to further limit participation of small vessels and those with smaller IVQs. Industry agreed that there needed to be some level of controlled fleet rationalization and acceptable quota concentration. Therefore, the IVQ program was designed with a stated objective of allowing the active groundfish trawl fleet to shrink to between 60 and 80 vessels.

To control quota concentration and fleet rationalization, two measures were implemented – Coastwide Species Caps and a Total Vessel Holdings Cap. The Coastwide Species Caps limit accumulation of an unreasonably large amount of any specific species IVQ by a single vessel. The size of the Coastwide Species Caps vary by species based on distribution, availability, abundance, and catch and/or bycatch frequency. While the permanent Coastwide Species Caps (i.e. amount of permanent IVQ held by a vessel for a specific species) have not changed over the years, there has been the introduction of temporary Coastwide Species Caps (i.e. the amount of temporary IVQ held by a vessel

for a specific species) which can vary throughout the year based on time of year, abundance, fleet activity, and market conditions.

While Coastwide Species Caps may help to limit fleet rationalization and quota concentration, their primary purpose is to ensure that important bycatch species are readily available to the fishery participants that need it. By limiting concentration of some species, incentives are created for everyone to fish more selectively. The more selective the fishing, the more accessible that species will be for others requiring it for bycatch purposes.

The second measure, and the one primarily aimed at controlling fleet reduction and quota concentration, was the implementation of the Total Holdings Cap. Each groundfish trawl license is subject to a Total Holdings Cap measured in groundfish equivalents (GFEs). A groundfish trawl license's Total Holdings Cap was originally determined by using the largest number of the following three options:

- 800,000 pounds GFEs, or
- twice the 1994/1995 average percentage of landings taken by the license multiplied by the total 1996 groundfish catch, or
- a 25% increase above the initial IVQ allocation.

For the purposes of calculating the Total Holdings Cap for each license, and for measuring IVQ holdings of a license against its cap, GFEs were established. GFEs essentially turn all groundfish into a common currency and are based on the relative price of each groundfish species to Pacific Ocean Perch (i.e. Pacific Ocean Perch = 1). If you refer to the annual groundfish trawl management plan you will find a table displaying the GFE values of each species relative to POP. Over the years these relative values have not changed, with the exception of Offshore Pacific hake. However, there have been some species added to the mix (Big skate, Longnose skate, and Arrowtooth flounder).

There have also been a few changes to Total Holdings Caps over the years. Initially a vessel's annual Total Holdings Cap measured in pounds of GFEs would fluctuate based on changes in the total pounds of GFEs for the entire fishery. This was caused by annual changes to species TACs. Each year a few TACs might go up and a few might go down and the total GFEs would change slightly. However, large fluctuations in the Offshore Pacific hake TACs could create significant changes in the total GFEs and create problems where some vessels would be within their Total Holdings Cap one year, when the hake TAC was high, but over the next because of a large decline in the hake TAC. Prior to the 1998 season, DFO agreed to fix the Total Holdings Caps based on the largest GFE year. A second change occurred in 2004 when everyone's Total Holdings Cap was increased by 12.5% to accommodate the addition of Big skate and Longnose skate TACs. A third change occurred in 2006 after Arrowtooth flounder was assigned a TAC of 15,000 tonnes and added to the IVQ program. Every license's Total Holdings Cap was increased by 4%.

Current Situation

The intent of the Total Holdings Cap is to restrict the amount of GFEs that can be placed on a single licensed vessel, thus limiting the extent of fleet reduction. While some may debate the merits of Total Holdings Caps, one cannot argue that they have achieved the stated objective (i.e. to maintain an active fleet of between 60 and 80 vessels). In the 2007/2008 groundfish trawl fishery, there were 72 active vessels of which 66 operated in the Option A fishery and 6 operated in the Option B fishery.

The attached spreadsheet is provided by DFO and shows for the 142 groundfish trawl licenses the Total Holdings Cap in order of smallest to largest for the 2008/2009 fishing year. The numbers 1 through 142 are not the groundfish trawl category "T" license numbers. Rather, they are simply the number assigned to the license in order of progression from lowest to highest Total Holdings Cap. The spreadsheet provides two snap shots for each license. One is the license's permanent IVQ holdings as a percentage of the license's Total Holdings Cap as of April 4, 2008 (the start of the fishing year) and the second is the licenses permanent plus temporary IVQ holdings as a percentage of the license's Total Holdings Cap as of February 20, 2009 (the end of the fishing year). As you can see, there are 45 licenses that have the current minimum Total Holdings Cap of 938,157 lbs of GFEs. The largest GFE is 8,077,862 lbs.

At the start of the 2008 fishing year, there were 3 licenses with permanent IVQ holdings at more than 90% of their Total Holdings Cap, 6 licenses at more than 80%, 13 licenses at more than 70%, 25 licenses at more than 60%, and 41 licenses at more than 50%. At the end of the 2008 fishing year, based on combined permanent and temporary IVQ holdings, there were 7 licenses at more than 90% of their Total Holdings Cap, 10 licenses at more than 80%, 18 license at more than 70%, 30 licenses at more than 60%, and 37 licenses at more than 50%.

Discussion

The discussion focuses around the following statement:

The existing Total Holdings Caps limit the amount of groundfish you can put on a groundfish trawl license.

This is an accurate statement and flows from the design of the original program. The question is whether or not we need to change the original Total Holdings Cap rules because the world in which the groundfish trawl fishery operates has changed and the fleet needs to change to remain competitive and economically viable.

Not all licenses have the same cap and not everyone has the same business model or vision for how they want to operate their fishing enterprise in the future. There are existing vessels that are not restricted by their Total Holdings Cap but are restricted by the various Coastwide Species Caps. Some vessels already have a large cap and

combined with the new licensing rules on length and license splitting can make changes that expand their fishing platform and production. Other vessels may not have a sufficient Total Holdings Cap on their license to expand their operation or justify investing in a larger fishing platform.

Generally, the groundfish trawl fishery is a low margin fishery, and economy of scale is very important to viability. Increasing the Total Holdings Cap allows for improved economies of scale either by increased specialization (for some species) and/or greater diversification through the utilization of a more comprehensive package of quota species. With the opportunity for increased production, vessel owners may purchase a larger vessel, put on another drum, put in a freezer, take more crew and catch more groundfish.

Increasing the Total Holdings Cap also provides the vessel operator with greater flexibility to develop a business plan that best suits his overall operation. Some license holders already own more than one groundfish trawl license and vessel. They may wish to consolidate operations during difficult economic times or expand the number of operations during strong market periods. Having such flexibility allows operators to plan for the future and determine what investments they need to make that are consistent with their long-term vision and direction.

While there are positive reasons for considering changes to the Total Holdings Cap rules, there are also impacts that may raise concerns and need discussion. For example, what would be the impact on employment? Most would agree that allowing for increases in the Total Holdings Cap will result in fewer active vessels. But does this equate to fewer crew jobs or fewer person years of employment? Furthermore, are they better quality jobs that are stable and provide fair compensation? There are different scenarios and all are possible. Operations like the Osprey No.1 and the Viking Enterprise may actually result in additional employment (both number of crew and person years). It is also possible that one vessel may expand its operation by absorbing all the quota of another vessel while at the same time utilizing the crews from both vessels for an equivalent number of jobs and person years as existed when the two vessels were both fishing. However, it is also possible that one vessel may absorb the entire quota of another vessel and, because of a significant increase in the vessel's operating economies of scale, only require some of the other vessel's crew and not create as many jobs or person years of employment as existed when both vessels were fishing.

What will be the impact on quota values and quota leasing costs? While quota values and lease prices are a function of many factors (i.e. exchange rates, fish prices, operating costs, species, supply and demand), it is possible that allowing expansion of the license's Total Holdings Cap could increase competition for permanent and temporary quota resulting in upward price pressure for both. Some believe that if the cost of purchasing or leasing quota increases it reflects a healthy market since the economics of the vessel's operation and the fishery will allow for such increases. Would there be increasing pressure on species caps? This is difficult to answer. Some would suggest that regardless of changes to Total Holdings Cap rules that they are already restricted by Coastwide Species Caps and would like to see them increased for some species.

Options for Consideration

This discussion paper is about whether or not there should be changes to the Total Holdings Cap rules in the groundfish trawl fishery. For many people, before they can assess the situation they need to understand how the Total Holdings Cap could change. Below are three possible options on how this can happen:

1. Stacking of Total Holdings Caps
2. Increasing the Total Holdings Cap
3. A combination of Stacking and Increasing Total Holdings Caps

Option 1 takes the approach that for a license to increase its total IVQ holdings beyond its existing Total Holdings Cap the operator has to purchase additional Total Holdings Cap either by stacking the entire cap from another vessel or a portion of another vessel's cap. Assuming the vessel owner doesn't already own another license, this option adds costs to vessels that are trying to expand their operation and wish to increase their Total Holdings Cap while compensating those who wish to reduce or remove their investment in the groundfish trawl fishery.

Option 2 simply increases every license's cap. This could range from no limit to a fractional increase in the license's Total Holdings Cap. For example, the Total Holdings Cap for every groundfish trawl license could be increased by 50%. This approach does not add costs to vessel owners wishing to expand their operation beyond their existing cap level (they still have the costs of purchasing or leasing the IVQ).

Option 3 is a combination of Options 1 and 2. For example, the Total Holdings Cap on every license may be increased by 25% but any license may be allowed to increase its cap by a total of 50% with the remaining 25% obtained from other license holders and stacked onto the license wishing to increase its Total Holdings Cap.

Summary

This is a discussion paper on the issue of whether or not there should be changes to the Total Holdings Cap rules in the groundfish trawl fishery. The paper is meant to provide you with some background about how the Total Holdings Cap was created and the possible benefits and problems associated with increasing them. If you wish to comment on this issue, please contact your GTAC representative (look in the groundfish trawl management plan for GTAC representative names and contact information) or Bruce Turris at 604-524-0005 or by e-mail at bruce_turris@telus.net.

David Bitts
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27 May 2009

Dr. Don McIsaac, Executive Director
Pacific Fishery Management Council
7700 NE Ambassador Place, Suite 101
Portland, OR 97220-1384

RE: Briefing Book Agenda Items: E.2 FMP Amendment 22: Open Access Fishery Limitation; E.11 FMP Amendment 20 – Accumulations Limits and Divestiture; E.12 Adaptive Management Program

Dear Dr. McIsaac and members of the Pacific Fishery Management Council,

The Pacific Coast Federation of Fishermen's Associations (PCFFA) represents working men and women in the West Coast commercial fishing fleet. Among the fishermen belonging to PCFFA member organizations that we represent are many engaged in the open access groundfish fishery, as well as some in the fixed gear limited entry and trawl fisheries.

PCFFA respectfully submits these comments on three briefing book agenda items.

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[A full copy of this letter is provided in Agenda Item E.3 on Open Access Fishery Limitation. Excerpts related to Agenda Item E.10 are provided here.]

E.11 FMP Amendment 20 – Accumulations Limits and Divestiture

PCFFA has supported and continues to support low accumulation limits in the trawl fishery. PCFFA is troubled by the accumulation limits that the Council has considered adopting. An accumulation limit of 1 percent for most species seems prudent and has been a figure widely used in other IFQ fisheries to avoid excessive consolidation and control of a particular fishery.

It bears repeating that high accumulations limits, which lead inexorably to fleet consolidation, affect adjacent fisheries and smaller ports. The Council should consider the needs of smaller ports and fishing communities when setting accumulation limits. A fleet of 40 to 60 trawl vessels for the entire coast, as predicted in the Amendment 20 EIS, would have a large impact on smaller ports and other fisheries that depend on trawl boats to help support dockside businesses and infrastructure.

In previous public comment PCFFA has advocated for using divestiture fish to fund Community Fishing Associations (CFAs). At the April 2009 meeting the Council adopted a motion to consider allowing CFAs to be “first in line” to access these fish. The question of whether or not CFAs would have to pay for these fish was deliberately not addressed. PCFFA supports the motion made by the Council in April for CFAs to be first in line to access divestiture fish. PCFFA believes that if smaller ports and fishing communities are to survive this “rationalization” process, CFAs are going to have to play a part in allowing these communities to maintain access to their resources. Funding CFAs with fish through various “pockets” of fish is imperative to their success.

Sincerely,

W.F. “Zeke” Grader
Executive Director

RECEIVED

FEB 25 2009

PFMC

February 24, 2009

PFMC Council Members
Pacific Fishery Management Council
7700 NE Ambassador Place #101
Portland OR 97220
FAX 503-820-2299

RE: IQ PROGRAM PREFERRED ALTERNATIVE ALLOCATION

Dear Council Members:

My name is Paul Raustrom and I am the owner of the fishing vessel,

Joy Ann. I am also a member of the Fishermen's Marketing

Association. This is to advise that I request that any and all decisions on

Ownership and Control be delayed until I, as a permit owner, have receipt of what I am

going to receive under the the preferred alternative allocation and what the individual

costs of the IQ program will be. I cannot make an informed decision until I know how I

will be impacted.

Sincerely,



March 3, 2009

Mr. Donald K. Hansen
Chairman
Pacific Fisheries Management Council
7700 NE Ambassador Place, Ste. 101
Portland, OR 97220-1384

RECEIVED

MAR 12 2009

PFMC

Dear Chairman Hansen:

The Council is scheduled to take action in March on trailing amendments to the TIQ Preferred Alternative. At this point, groundfish permit owners who are affected by past and future decisions have no information available to them. Without information about how this plan affects me, I cannot provide informed public input on future or past decision-making on this very important regulatory change.

I strongly urge that the Council move to defer any future decisions relating to the Trawl IQ plan until permit owners, like myself, have the information necessary to evaluate and understand the impacts of the plan on our own businesses.

I appreciate the opportunity to comment. If you have any questions about this important matter, please contact me at 503-867-6135

Sincerely,

Denny Burke

F/V Timmy Boy

Mr. Hansen I believe we need to know what our gate pounds are before we go further down the path. To correctly address the allocation issues we need to know the math. Thank you for the open door policy and the chance to participate.
F/V Timmy Boy inc. Denny Burke