PacificSeafood®

November 3, 2015

Agenda Item B
Open Public Comment
November 2015

Ms. Dorothy Lowman, Chair
Pacific Fishery Management Council
7700 NE Ambassador Place, Suite 101
Portland, OR 97220

RE. *"Draft Guidance for Conducting Reviews of Catch Share Programs" — proposed by the National Marine Fisheries Service and distributed on October 1, 2015; AND "Draft Council Staff Comments on Draft Guidance for Conducting Reviews of Catch Share Programs"*

Dear Chair Lowman,

Please accept these comments on behalf of Pacific Seafood. Pacific Seafood operates shoreside processing plants and a fleet of fishing vessels in California, Oregon and Washington. We process a major portion of both whiting and non-whiting groundfish landed on the West Coast. Pacific participated throughout the development of the West Coast trawl IFQ program and we continue to be very engaged in the management process.

As a participant who has a vested interest in a successful trawl groundfish program, we want to reiterate some of the concerns previously raised by us and others about the current state of our catch-share program.

Three influential fishermen who were the original, and some of the strongest, advocates for the West Coast non-whiting IFQ program publicly proclaimed the program to be an economic failure.

In September 2014, Pacific Seafood issued a report[1] stating

"Mid-way through the fourth year since implementation of the IFQ program, it has become more than apparent that the non-whiting groundfish portion of the program is performing poorly from an economic sense. Non-whiting revenues are stagnant and cumulative attainment of target species remains at less than one-third of the allowable catch. At the same time costs for

[1] http://www.pcouncil.org/wp-content/uploads/J1d_Sup_PubCom2_SEPT2014BB.pdf

participating in the program continue to rise. It is our opinion that the program, as currently structured, is not economically viable over the long-term."

Dan Holland (Supervisory Economist) and Karma Norman (Social Scientist) with Northwest Fisheries Science Center note that[2]

"Economists tend to trust that competitive markets are the most efficient means of distributing scarce resources (e.g., QP), but ***this may not be the case when these markets are inherently thin*** *and must distribute multiple goods with jointly determined and highly uncertain values The centralized decision-making of a large firm (whether an owner of vessels or a processor that owns or buys and distributes QP to the vessels that deliver fish to it) that can harness disparate information and/or can mitigate risk associated with uncertainty may actually be able to do a better job of maximizing value. It is notable that, in mature multispecies IFQ systems in New Zealand, Iceland, and British Columbia much of the quota share has been acquired by large firms, often by processors or vertically integrated firms with processing and harvesting capacity. Part of the reason for this is undoubtedly to increase their ability to build stable markets for their products by gaining control of what fish is landed when, but these firms are also able to move QP around to the vessels that fish to them to ensure it is used efficiently.* ***Cooperatives might achieve similar gains****, depending on how they are organized and operated. Risk pools also play an important role in managing risk associate with highly uncertain QP needs.*

Rules that at face value appear to be designed to make the market more competitive (e.g., aggregation limits, prohibiting subtracting quota cost from ex-vessel price) may actually constrain useful distribution mechanisms (e.g., risk pools and cooperatives), *though they may also be necessary to avoid abuses of market power. There are likely to be trade-offs in terms of allowing useful organizational mechanisms for quota distribution and abuses that can occur as a result of centralized control and "market power."*

The Pacific groundfish fishery is highly complex and has relatively rigid catch balancing rules, which make an efficient market doubly important but may also undermine its operations. Although it may not be legal or desirable to implement approaches used elsewhere, it may be possible to increase flexibility*.*

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[2] Holland, D. S., and K. Norman. 2015. The Anatomy of a Multispecies Individual Fishing Quota (IFQ) "Market" in Development. U.S. Dept. of Commer., NOAA. NOAA Technical Memorandum NMFS-F/SPO-158, 30 p. http://spo.nmfs.noaa.gov/tm/

Economics, optimum yield, and utilization are addressed as major factors of importance for consideration in MSA application, rulemaking, FMP development and management measures. Pacific Seafood would argue that the West Coast IFQ program is not economically successful at this point. The bycatch savings which are advertised as a moniker of success are only achievable because the program has such a dismal record of utilization. Except for a few individuals and those who have taken IFQ sablefish in fixed gear harvest, the utilization of all but several species has remained stagnant or has significantly decreased. This is the exact opposite of what the program was purported to achieve.

The upcoming review is our opportunity to fix this program. To that end, we recommend to focus on the NMFS' draft guidance and the National Standards outlined below.

"Draft Guidance for Conducting Reviews of Catch Share Programs"—proposed by the National Marine Fisheries Service and distributed on October 1, 2015

A. *Section 303A(c)(1)(G) of the MSA requires the Councils and Secretary to periodically conduct "formal and detailed" reviews of all LAPPs established after January 12, 2007. This requirement applies to LAPPs established under Secretarial authority as well. The date a program was established is the effective date of the action in the final rule that implemented the program.*

VI. Describing and Analyzing Program Performance

E. ACL/AM/Quota performance..... "***The review should also analyze whether the program is encouraging full utilization of the available ACL, TAC, or quota. If full utilization is not taking place, the review should assess why this is the case".***

National Standards:

National Standard 1 states that *conservation and management measures shall prevent overfishing while achieving, on a continuing basis, the optimum yield from each fishery for the United States fishing industry.*

National Standard 5 states that *conservation and management measures shall, where practicable, consider efficiency in the utilization of fishery resources.*

National Standard 7 states that *conservation and management measures shall, where practicable, minimize costs and avoid unnecessary duplication.*

National Standard 8 states that *conservation and management measures shall, consistent with the conservation requirements of this Act (including the prevention of overfishing and rebuilding of overfished stocks), take into account the importance of fishery resources to fishing communities in order to (A) provide for the sustained participation of such communities, and (B) to the extent practicable, minimize adverse economic impacts on such communities.*

The Council and NMFS must take a different approach if this fishery is going to transition to economic viability. The non-whiting program simply needs to be fixed. There are not enough trailing amendments or other forms of management measures to turn this around without looking at the structure of the program, markets, and cooperative approaches.

We need independent viewpoints and analysis for the five-year IFQ program review. This will necessitate independent experts or qualified economists employed by NMFS willing to objectively evaluate structural defects and prescribe necessary program modifications that are better suited for this complex fishery and the markets it feeds. Cooperatives need to be considered as an option even if that requires an FMP amendment. More of the same simply will not get the job done.

We thank you for your consideration.

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