



6/12/17

Herb Pollard, Chair  
Pacific Fishery Management Council  
7700 NE Ambassador Place, Suite 101  
Portland, Oregon 97220-1384

RE: 5-year review of the Pacific groundfish catch share program

Dear Chairman Pollard,

Thank you for the opportunity to comment on the 5-year review of the Pacific groundfish catch share program. We would like to commend the Council and NMFS staff for their efforts at documenting the effects of the catch share program thus far, and for assembling such a thorough and thoughtful analysis.

We at EDF have been considering the outcomes of the west coast groundfish catch share program and offer several observations and recommendations. These recommendations are driven by the belief that the best way to achieve and maintain conservation successes is through the support of stakeholders involved in a fishery. This means that stakeholders should see clear economic benefits from the catch share program. With that in mind, we offer up the following comments:

1. Economic benefits of the groundfish catch share program are not being fully attained

The analysis done by Council and NOAA staff indicate that some economic improvements have occurred in the fishery. While these improvements are certainly welcome, we believe they are falling short of what could be attained. For instance, a handful of vessels appear to be doing well in the program but the vast majority do not appear to be (see associated PowerPoint slides). Similarly, groundfish landings in the program have decreased despite the increase in ACLs. This reduction in volume has implications for laborers and for others further up the supply chain that handle and process the harvested fish. To further improve the economic benefits of the groundfish catch share fishery, we recommend the Council focus on 1) ways to increase profit rates for the majority of non-whiting vessels and 2) ways to increase harvest opportunities for underutilized stocks in the fishery.

Suggestions for how the Council may be able to help the fishery better attain the economic promise of this program are included in the sections below.

## 2. A market-based management system works well under certain circumstances

Well-functioning markets tend to steer assets toward the place of highest return and spur behavior and innovation in ways that stimulate further improvements. Establishing a market-based IFQ program for the groundfish trawl fishery was expected to result in greater economic efficiency (and larger profits) for the majority of those in the industry. To some degree this has occurred, however the system does not appear to be operating as well as it could be. We believe that the benefits of the program are not being fully realized and are not being realized by as many participants and stakeholders as could otherwise be the case. The middle and lower thirds of the fishery have experienced declining profit rates over time while the top third vessels have experienced increasing profit rates since IFQ implementation.

There are several methods that would help this market-based system to function in a more effective manner, some of which are listed below.

### a. Markets work well in simple systems

Markets tend to be forward looking and to value assets based on an expectation of profit generated by those assets. In order to be forward looking and to price assets appropriately, the market system must be simple in the sense that everyone understands the system and there are few complexities which stand in the way of appropriately pricing and using those assets. In the case of a catch share fishery, adequately pricing quota is important because it sends a signal that influences behavior. If the price signal is wrong, the incentive is wrong. Furthermore, markets that do not work in simple systems may have trouble allocating resources effectively and efficiently, as is the case with the west coast groundfish catch share program. These complexities may stand in the way of transferring quota to the places where it is needed. Furthermore, complex systems not only make it difficult to engage in business planning but also inhibit coordination between the harvesters and processors thereby reducing the overall fishery economic performance.

We believe that many regulations that were initially well intended are not having a positive economic impact on the West Coast IFQ fishery system, and that doing away with them would allow the catch share program to function better. We suggest the Council consider ways to simplify the program, including:

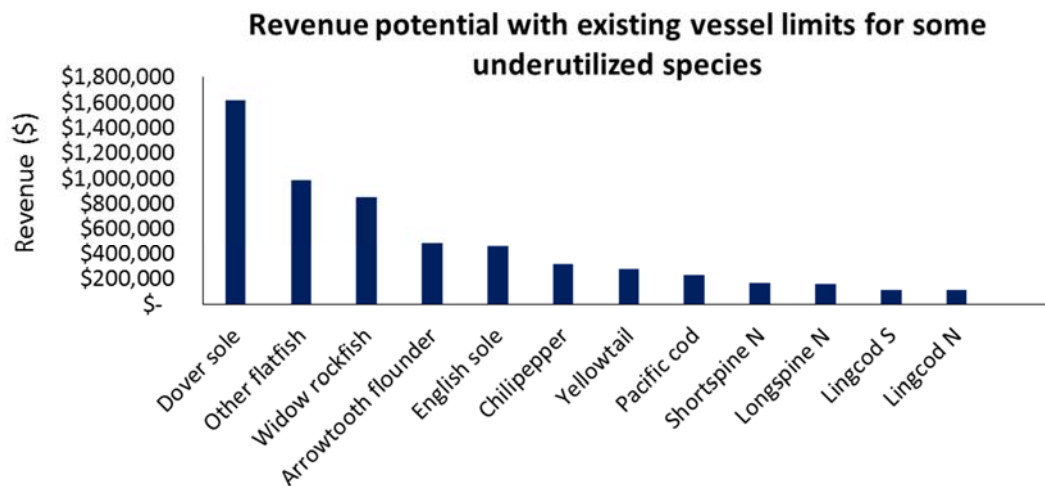
- Removing the daily limit for overfished species
- Eliminating the requirement that QP be transferred to a vessel account
- Simplifying or doing away with the aggregate accumulation limit

### b. Policies to help support competing in the generic whitefish market

Aside from a few key species, the fish harvested in the west coast groundfish fishery can be considered a generic whitefish. This has implications for the ability to sell fish to the consumer due to the high number of product substitutes. Such substitutes include whitefish from other fisheries and similar products that may come from aquaculture. Because of the large number of product substitutes, one of the key factors that can enable sales of west coast groundfish to

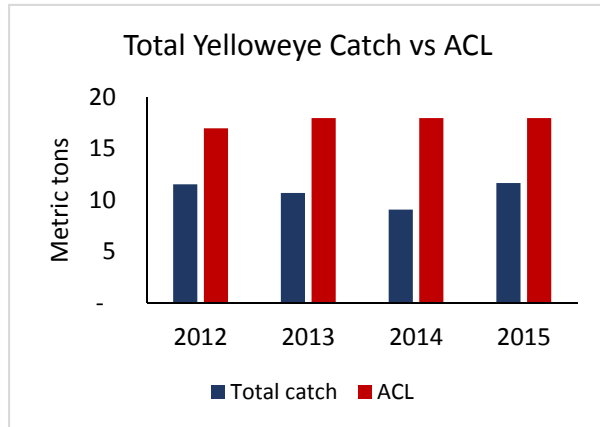
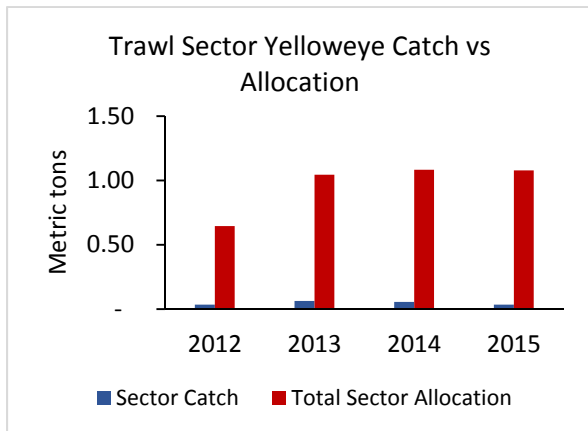
consumers is the presence of product consistency and quality. The Council can adopt policies that help facilitate more consistent product flow into the supply chain.

A significant portion of west coast groundfish is unharvested. There are many reasons for low attainment including high participation costs in the fishery, numerous gear and area restrictions left over from the prior management system that reduce efficiency and flexibility, and lack of a coordinated strategy between harvesters and processors to build and maintain markets. In order to increase the potential for capitalizing on such opportunities, we recommend that the PFMC consider increasing accumulation limits for some underutilized species to allow for greater specialization by vessels in the fishery and ultimately, a potential significant increase in revenue (figure below). Ultimately, increasing landings from underutilized species and greater coordination with harvesters and processors could offset the declining total cost net revenue of non-whiting processors.



c. The quota market is not able to effectively deal with small allocations  
During the development of the trawl IFQ program, it was contemplated that small quotas for overfished species would lead to thin market conditions. It was also contemplated that the industry would likely engage in some risk avoidance behavior, which may result in hoarding of quota in some circumstances. It is fair to say that these behaviors are being witnessed for many overfished species, but in the case of yelloweye, it appears that the market-based IFQ system is simply unable to effectively deal with the very small amounts of quota available.

It appears that the result of including yelloweye in the trawl IFQ program is leading to a significant strain on the economic performance of the IFQ fishery without improving management and conservation measures. IFQ fishermen are giving up multiple target species opportunities due to the fear of encountering yelloweye, yet the benefit to conservation and management of yelloweye is very slight due to the small amount of yelloweye allocated to the sector. Prior to implementation of the IFQ program, the trawl sector harvested very small yelloweye volumes. See figures below.



Because of the very small conservation and management benefits from managing yelloweye as an IFQ species, we recommend the Council consider changing the way yelloweye is managed under the program. Our recommendations for further analysis are that the Council explore the following two different approaches:

- Small total catch trip limits for yelloweye (similar to management of other non-IFQ species)
- Incorporate yelloweye into a IFQ complex with other species

#### Concluding Remarks

We commend the PFMC for continuing to work at improving the performance of the IFQ fishery. We also commend the PFMC and NOAA staff for producing such an insightful and helpful analytical document to support the program review.

Our recommendations are aimed at ways which would allow for greater economic performance of the fishery. First and foremost, the Council and NMFS should expedite implementation of actions already underway that will reduce costs, improve efficiency and flexibility, and create the conditions to significantly improve attainment. Those actions include completion of the RCA/EFH package, implementation of the gear package and year-round non-whiting midwater fishing, and measures to reduce costs like electronic monitoring. In general, the recommendations detailed above can be described as simplifying and relaxing the management system in ways that allow for greater economic opportunity without compromising conservation outcomes. We believe it is important to make sure this program is generating positive economic returns for as many participants as possible in the fishery as this ultimately maintains long term support for the existing management system and the tremendous conservation outcomes it has produced.