

Range of Gear Switching Alternatives Adopted for Analysis  
by the Council at Its September 2021 and June 2022 Meetings

October 2022

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## Range of Gear Switching Alternatives Adopted for Analysis by the Council at Its September 2021 Meeting

This document provides a description of the preliminary range of alternatives adopted by the Pacific Fishery Management Council (Council) at its September 2021 meeting and augmented at its June 2022 meeting.

*The following are the **major modifications** made based on Council direction and discussion in June.*

- ❖ Alternative 1 (Gear Specific Quota Share (QS))
  - Implemented Council Direction—see June 2022, 2<sup>nd</sup> Motion in Section 4.0
  - Renamed “**IFQ Participant**” to “**Non-Gear-Switching Participant**”
- ❖ New Alternative 2 (Gear Specific Quota Pounds (QP))
  - Implemented Council Direction to Create New Alternative—see June 2022, 2<sup>nd</sup> Motion in Appendix and Interpretations section under Alternative 2.
- ❖ New Alternatives 3 and 4 (Gear-Switching Endorsements; Formerly Alternative 2)
  - Implemented Council Direction—see June 2022, 3<sup>rd</sup> Motion in Appendix
    - Including: split Old Alternative 2 into two alternatives, one based on qualification based on permit history (new Alternative 3) and the other on vessel history (new Alternative 4).

See the June version of the alternatives ([Agenda Item F.5, Attachment 2, June 2022](#)) for additional interpretations regarding Alternative 1 and the old Alternative 2 (now Alternatives 3 and 4).

Since this document was published as a September 2022 Council meeting informational report, a few revisions have been made. In the process of conducting the analysis, a few issues, mostly related to Alternative 2, were identified which required clarifications to the language of the alternatives. These are highlighted as underlined insertions and strike-outs in Attachment 1. In addition to the changes made to Alternative 2, language was added to Alternatives 3 and 4 to indicate that the size of gear-switching endorsements should not be set above the annual vessel QP limit (currently 4.5 percent).

In the following, all references to quota, allocations, quota share (QS), and quota pounds (QP) are to northern sablefish, unless otherwise specified.

### **1.0 SUMMARY OF NO-ACTION ALTERNATIVE**

No Action is an alternative to each of the following action alternatives. Under No Action, the regulatory regime would not change in connection with this deliberation, but the fishery will continue to change in response to changing environmental, economic, and social conditions, as well as other regulatory actions. Attainment of the trawl allocations would continue to vary with changes in factors such as the level of trawl allocations, market conditions, the mix of co-occurring species, and prices for QP. These factors may influence and be influenced by the degree of gear switching (trawl-permitted vessel use of non-trawl gear to catch trawl QP; GS). Vessels with trawl limited entry permits (trawl LEPs) would be able to continue to use any gear to catch their sablefish north of 36° N. lat. QP, up to the annual vessel limit of 4.5 percent. The total amount of GS might decline, remain at recent levels, or increase.

## 2.0 SUMMARY OF ACTION ALTERNATIVES

There are four action alternatives, which rely on different mechanisms to limit GS of sablefish north of 36° N. lat. (Figure 1 through Figure 3 and Table 1). The first would limit GS by converting some northern sablefish quota share (QS) to trawl-only and leaving the remainder as is (i.e. any-gear QS; Alternative 1, Gear Specific QS). The second, instead of converting northern sablefish QS to gear specific QS, would issue gear specific QP to QS Accounts with northern sablefish QS (Alternative 2, Gear Specific QP). The third and fourth alternatives would provide a minimal level of GS for all vessels with trawl LEPs and substantially more opportunity for vessels fishing with GS endorsed trawl LEPs. Those GS endorsements would be attached to permits and issued either based on the history of the permit, along with some other criteria (Alternative 3, Gear Switching Endorsement—Permit Qualifier), or based on the history of a vessel, along with some other criteria (Alternative 4, Gear Switching Endorsement—Vessel Qualifier).<sup>1</sup> Under all alternatives, some greater amount of opportunity would be provided in consideration of GS history. History-based opportunities would be allocated using criteria that include qualifying GS history in association with ownership of one or some combination of the following assets: a trawl LEP, a vessel, and/or QS.

**Maximum GS Allowed:** Under none of the alternatives would the amount of GS opportunity conveyed as gear specific quota or GS limits associated with GS endorsement exceed 29 percent of the trawl allocation.<sup>2</sup> Under Alternatives 1 and 2, the maximum amount of gear switching may be lower than 29 percent depending on the QP allocation split options selected by the Council (Table 2). For Alternatives 1 and 2, the first QP split option would designate 29 percent of the quota as any-gear, thereby establishing a 29 percent maximum (the remainder of the quota would be trawl-only). The second QP split option would specify the any-gear portion as the smaller of 29 percent of the trawl QP allocation and 1.8 million lbs. Under Alternatives 3 and 4 the GS allowed under GS endorsed permits would be a maximum of 29 percent but could be lower depending on the qualifying options (Table 2) and endorsement limit options selected (Table 3). Using Alternative 3 as an example, the lowest number of qualifiers would occur under Qualifying Option 3, which requires that as of and since the control date, a person own the qualifying permit, some amount of northern sablefish quota share, and a vessel that gear switched. The lowest average GS limits for individual GS endorsements would occur under Endorsement Limit Option 3, which would set the individual permit limits based on the amount of QS owned by the qualifying person as of and since the control date. At the November 2022 Council meeting, analysis will be provided on the expected maximums for the Alternative 3 and 4 options.

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<sup>1</sup> Under Alternative 4, the owner of a qualifying vessel would designate a trawl LEP to which the gear switching endorsement would be attached.

<sup>2</sup> For Alternatives 3 and 4, in addition to the opportunity conveyed by the GS endorsements (up to 29 percent of the trawl allocation), vessels fishing under trawl LEPs without gear switching endorsements would be allowed to gear switch a relatively small percentage of northern sablefish, not to exceed 10,000 pounds per vessel. Based on historic participation patterns, very little fishing is expected to occur under these small limits

## No Action

- Continuation of unlimited gear switching.

## Four Action Alternatives

- Restriction of gear switching for northern sablefish.



## No Action: Overview

Main Gear Switching Related Provisions				
Trawl Permit Required to Participate	Vessels with Trawl Permits Can Use Any Gear	LE Trawl and LE Fixed Gear Permits Dual Registration Allowed	Any Person Can Open a QS Account QS Account Cannot be Transferred	QP Issued to QS Accounts QPs Transfer to Vessel Accounts

Annual Vessel QP Use Limit: 4.5%  
QS Control Limit: 3%

10

Figure 1. Identification of alternatives and overview of No Action Alternative.

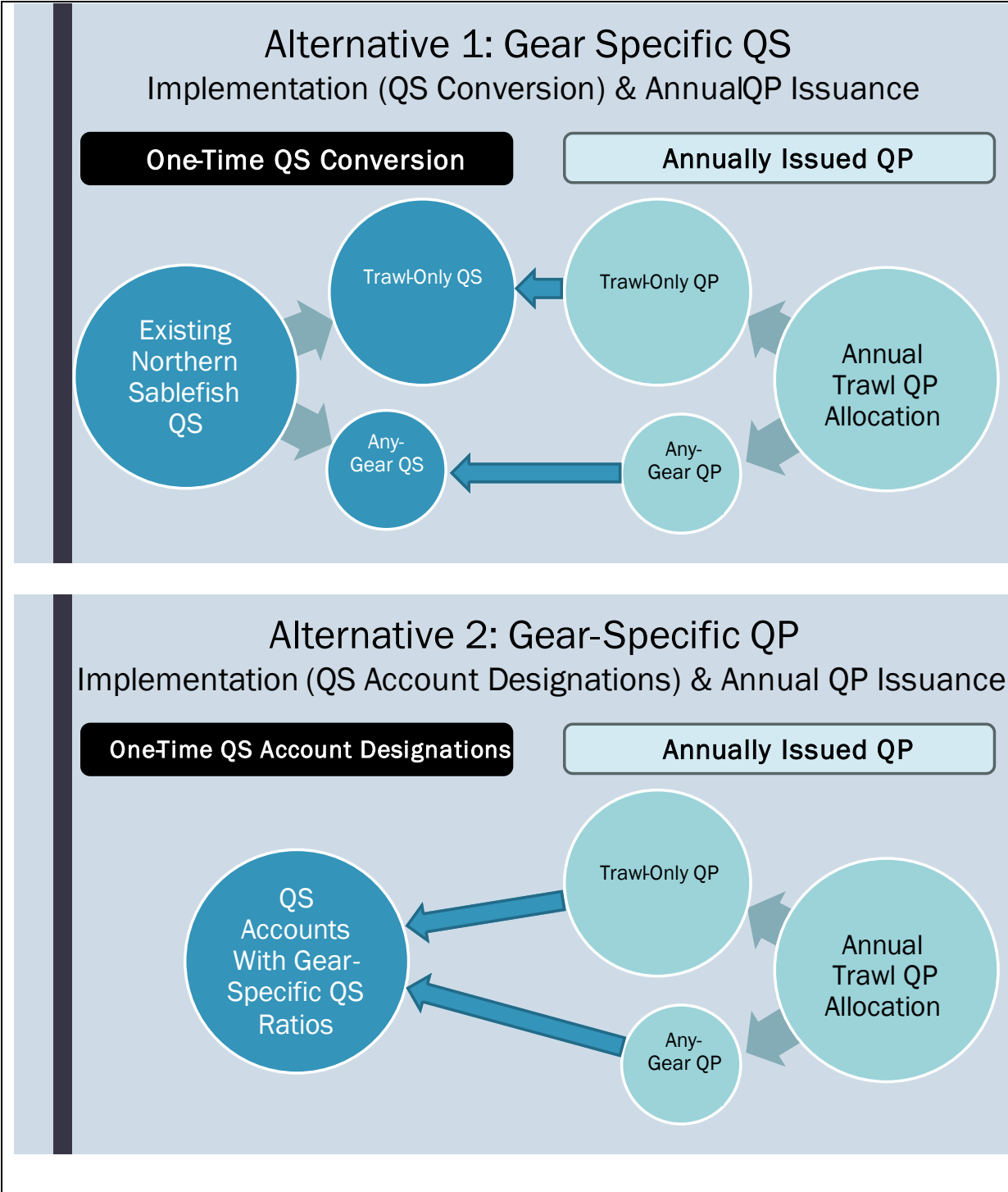


Figure 2. Schematic of Alternatives 1 and 2.

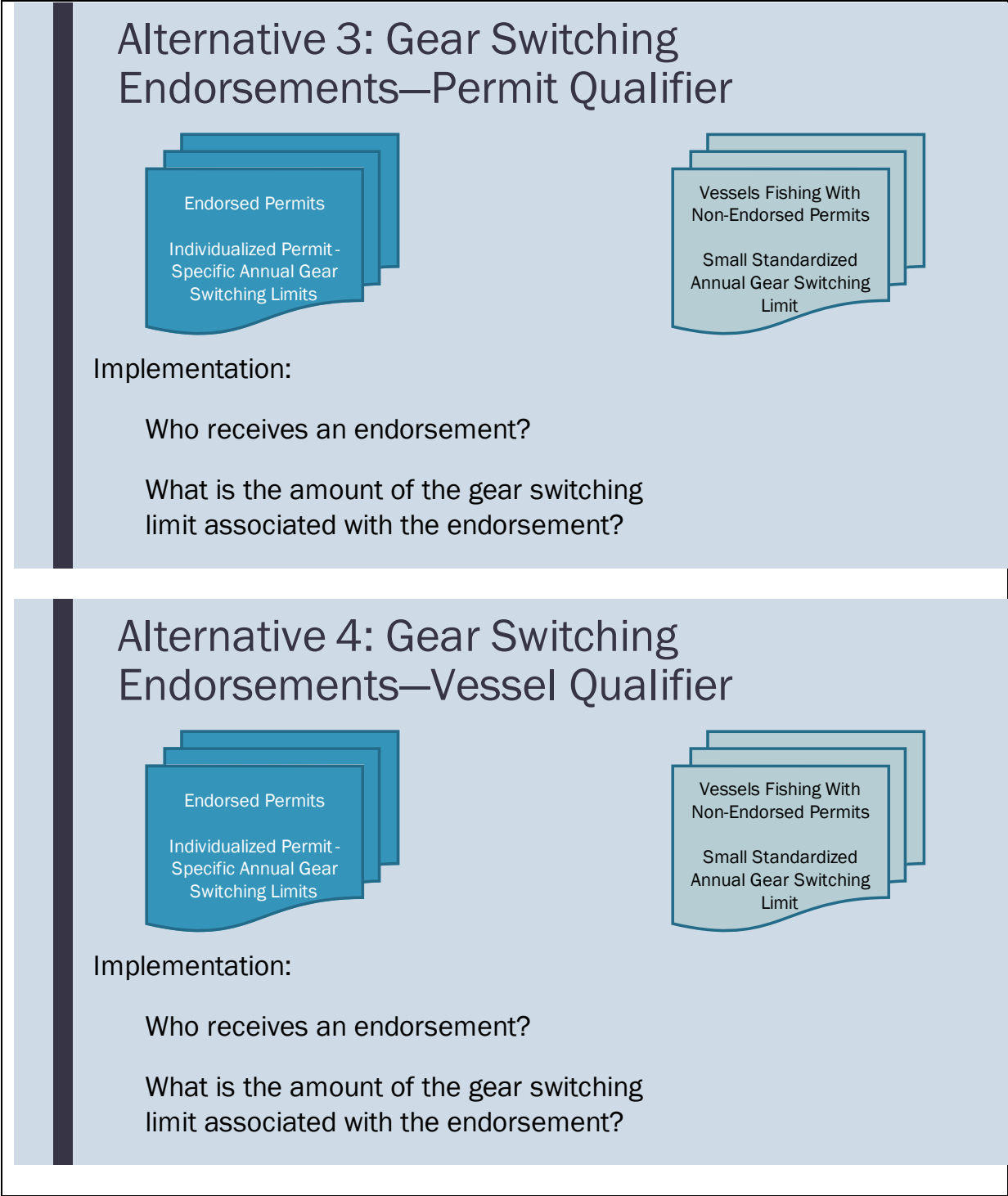


Figure 3. Schematic of Alternatives 3 and 4.

**Qualifying Criteria:** What must be owned and when, in order to qualify for a continuation of some GS opportunity based on a history of GS, varies among the alternatives—as described for in the last row of Table 2. All four alternatives include a qualifier option constructed around having gear switched at least 30,000 lbs per year in at least 3 years prior to the control date (September 15, 2017). For Alternatives 1 and 2, there are options constructed around requiring only a single gear switched landing. The full text of the alternatives should be reviewed for specific information on what is required to meet the criteria.

Additionally, under Alternative 1 and 2, non-gear-switchers (those not meeting the GS qualification criteria) could still receive a portion of their quota as any-gear. However, under Alternative 1, non-gear switchers might need to meet an additional criteria (ownership of a vessel that made a bottom trawl landing after the control date). Those non-gear switchers who do not meet that criteria would receive trawl-only quota.

**Alternatives 1 and 2 Qualification—Individual and Collective Approaches.** Under Alternatives 1 and 2, the gear type designations applied to quota depends on the GS history of those who owned QS accounts as of the control date. For these alternatives, qualifying criteria are currently applied using an individual approach. This means that for QS Accounts owned by an ownership group of some kind, if every individual in the ownership group meets the GS qualification criteria then all of the quota in the account would be handled on that basis (i.e., converted to any-gear QS under Alternative 1 or issued any-gear QP each year under Alternative 2). However, if only some the individuals in the ownership group meet the gear-switching qualification criteria and those individuals have half ownership in the group’s account, then only half the quota in the account will be handled on that basis. The alternative to the individual approach would be a collective approach. Under the collective approach, if one individual in an ownership group that owned a QS account meets the GS qualification criteria then all quota in the account would be handled on that basis. An analysis that includes the number of QS owner groups and amount of QS impacted by the choice between individual and collective approaches will be provided at the November 2022 Council meeting. Depending on its assessment of these results, at that time the Council could decide to switch to a collective approach.

**Alternative 2 QS Account Ratios and QS Account Replacement:** The approach of establishing QS Account ratios for gear-specific QP is new to the Council deliberations on GS, and therefore a bit more description is provided here. Under Alternative 2, a gear-specific QP ratio would be assigned for each QS account. For each account, the amounts of QS attributable to ownership by an individual that meets the GS qualification criteria will be issued any-gear QP, up to an amount equivalent to the QS held on the control date. Thus, for QS Accounts whose owner(s) all meet the gear switching qualifying criteria and at implementation do not own more QS than they owned on the control date, 100 percent of the QP would be issued as any-gear QP. For QS held in excess of the amount held on the control date and QS attributable to the ownership of all other individuals, trawl-only and any-gear QP will be issued in a standard ratio that is calculated to result in the overall trawl-only any-gear QP split designated for the alternative by the Council. This means that the ratios may vary between accounts depending on the qualification status of the individual owners and amounts of QS owned on the control date. Accounts may receive 100 percent QP as any gear, some a blend of 100 percent any-gear and the standard ratios, and others the standard ratio. No accounts would receive 100 percent trawl-only QP. Further,



QS Accounts are not transferable and therefore expire over time, and ratios for remaining accounts will need to be adjusted over time. When a QS account expires that receives 100 percent of its QP as any-gear QP (for example), the standard ratio will be modified to increase the proportion of any-gear QP provided to all other QP accounts—in order to maintain the overall split designated for the alternative (for example, 29 percent). Eventually, if all QS accounts that are receiving a portion of their QS as any-gear based on a connection with gear switching history expire, then under this example the standard ratio would be 29 percent any gear and 71 percent trawl only with the same ratio would apply to all QS accounts. Because QS Accounts can expire for reasons unrelated to changes in the ownership structure (e.g., a change to the name of the business owning the account), an option is provided for Council consideration that would allow a QS owner to replace a QS Account and maintain the same gear-specific QP ratio for the replacement account. At the same time, QS accounts can also be maintained indefinitely and transferred to new owners as long as, for example, the name of the owning corporation does not change. Therefore, for Council consideration an option is provided under which if a new owner is added to an ownership group whose ratio is based on gear-switching history, the gear-specific ratio would be convert to the standard gear-specific ratio. These two options are not mutually exclusive.

Table 1. Overview of main provisions of the action alternatives.

Alternatives	Alt 1 Gear Specific QS	Alt 2 Gear Specific QP	Alt 3 Gear Switching Endorsement—Permit Qualifier	Alt 4 Gear Switching Endorsement—Vessel Qualifier
<b>Mechanism to Limit Gear Switching</b>	Gear-Specific QP (Trawl-Only & Any-Gear)  Issued for Gear-Specific Northern Sablefish QS (Trawl-Only or Any-Gear)	Gear-Specific QP (Trawl-Only & Any-Gear)  Issued for Northern Sablefish QS	Annual Limits on the Amount of Gear Switching Allowed for a Trawl Permit or Vessel	
<b>Gear Switching Opportunity</b>  Available to Any Current or Future Trawl Permit Holder	A vessel's gear switching is limited only by the amount of any-gear QP it is able to acquire.		All vessels can gear switch at least xx% of the trawl allocation of northern sablefish and,  if gear switching endorsements do not expire with permit transfer (see below), vessels that acquire trawl LEP permits with gear switching endorsements can gear switch more .	
<b>Based on History of Gear Switching Activity</b>	Relative to other QS owners, QS owners with qualifying gear switching history would have ...		Qualifying entities designate a trawl LEP permit that would receive a gear switching endorsement.	
	...more of their QS designated as any-gear QS	...more of the QP deposited to their accounts designated as any-gear QP	Vessels fishing under permits with such endorsements would have individualized gear-switching limits that would likely be higher than for vessels fishing without endorsements.	
<b>Basic Criteria for Qualifying for Gear Switching History-Based Opportunities</b>	Owning QS on the control date <u>and</u> owning a vessel when it met gear switching participant landings criteria.		Owning a <b>trawl LEP with gear switching history</b> , with additional options that could also require QS and gear-switching vessel. (mix of additional requirements to be determined by the Council)	Owning a <b>vessel with gear switching history</b> with additional options that could also require QS and trawl-LEP ownership. (mix of additional requirements to be determined by the Council)
<b>Duration</b>	No limit on duration.		Options for the gear switching endorsement to expire or remain valid with transfer of permit to a new owner.	

Table 2. A few other provisions of the action alternatives.

Alternatives	Alt 1 Gear Specific QS	Alt 2 Gear Specific QP	Alt 3 Gear Switching Endorsement—Permit Qualifier	Alt 4 Gear Switching Endorsement—Vessel Qualifier
<b>Means for Conveying Gear Switching Opportunity</b>	Gear Specific QS	Gear-Specific QP Ratios for Each QS Account	Trawl Limited Entry Permit (some with gear-switching endorsements)	
<b>Maximum Gear-Switching</b>	<b>QP Split Option 1:</b> 29% any-gear <sup>a/</sup> <b>QP Split Option 2:</b> 29% any-gear but not more than 1.8 million lbs <sup>a/</sup>		Not more than 29 percent for all vessels with endorsements, in aggregate.  Depends on the qualifying criteria (below) and endorsement limit options (Table 3) selected	
<b>Qualifying Criteria for GS History Based Opportunities<sup>b/</sup></b>  (abbreviated – please see the alternatives for complete specification of these criteria).	Owner of a QS account must have owned northern sablefish QS on the control date and used a vessel they owned to gear switch ...  <b>Option 1:</b> at least one landing of northern sablefish prior to September 15, 2017  <b>Option 2:</b> at least 30,000 pounds of northern sablefish in each of three or more years prior to September 15, 2017.		To qualify for an endorsement...	
			<b>Option 1:</b> Own a LEP Permit that gear switched at least 30,000 lbs per year in at least 3 years. <b>Option 2:</b> Same as Option 1, but own the permit and at least some northern sablefish QS as of and since the control date. <b>Option 3:</b> Same as Option 2, but also own a vessel as of and since the control date that has some gear switching history.	<b>Option 1:</b> Own a vessel that gear switched at least 30,000 lbs per year in at least 3 years. <b>Option 2:</b> Same as Option 1, but own the vessel and at least some northern sablefish QS as of and since the control date. <b>Option 3:</b> Same as Option 2, but also own a trawl permit as of and since the control date.

a/ The remainder would be trawl-only.

b/ Under Alternatives 1, there is an option that would include an additional criteria that non-gear switchers (those not meeting the gear switching history criteria) would need to meet in order to receive a portion of their quota as any-gear—those not meeting that criteria would be allocated only trawl-only quota. That criteria is ownership of a vessel making a bottom trawl landing after the control date and prior to implementation.

Table 3. General description of the endorsement limit options for Alternatives 3 and 4.

Alternatives	Alt 3 Gear Switching Endorsement—Permit Qualifier	Alt 4 Gear Switching Endorsement—Vessel Qualifier
<b>Endorsement Limit Option 1:</b>	Qualifying permit's average percentage of sablefish north trawl QP allocation gear switched.	Qualifying vessel's average percentage of sablefish north trawl QP allocation gear switched.
<b>Endorsement Limit Option 2:</b>	Based on QS owned as of and since the control date plus an amount such that the total of all gear switching limits is 29 percent. This additional amount would be distributed among endorsements in proportion to history calculations specified in Option 1.	
<b>Endorsement Limit Option 3:</b>	Based on QS owned as of and since the control date	

### 3.0 DETAILED DESCRIPTION OF THE ACTION ALTERNATIVES

Following is a detailed description of action alternatives. In these descriptions, all references to quota, allocations, QS, and QP are to northern sablefish, unless otherwise specified. Additionally, all references to years are to calendar years unless otherwise noted.

#### **Action Alternative 1: Gear Specific QS Alternative**

**Overview.** All northern sablefish QS will be converted to either QS valid only for the use of trawl gear (“trawl-only QS”) or for the use of any gear (“any-gear QS”, i.e. QS that is the same as status quo QS with respect to gear usage). This one-time conversion will be carried out in a fashion such that it will not impact the total percentage of northern sablefish QP a QS owner receives in the first year after the conversion. The proportions of each type of QS a QS owner receives will be based on the QS owner’s history of owning a vessel that gear switched or trawled (their participation status), except that any QS an owner holds that is excess of the amount held as of the control date (September 15, 2017) will be converted entirely to trawl-only QS. For QS owners that qualify as an Gear Switching Participant will receive all of their northern sablefish QS as any-gear QS (except for amounts held in excess of what they owned on the control dates). Non-Gear-Switching participants will receive a combination of trawl-only and any-gear QS; and if there is an “Other Participant” category, those entities would receive 100 percent of their QS as trawl-only. The trawl allocation of northern sablefish QP issued each year will be split between trawl-only QS and any-gear QS.

#### **Terminological Note:**

Any-gear QS: Same as status quo QS.

Conversion: Because any-gear QS is the same as status quo QS, there is not really a need to “convert” it to any-gear QS but to simplify discussion, the designation of QS as any-gear QS will be described as “conversion.”

#### **Full Description**

##### **Trawl-Only and Any-Gear Quota Share (QS)**

The current northern sablefish QS (valid for use with any gear) will be converted to trawl-only QS and any-gear QS (see procedure below).

##### **Annual Split of the Sablefish North QP Allocation Between Trawl-Only and Any-Gear QS:**

**QP Allocation Split Option 1:** 71 percent of the trawl QP allocation will be designated as trawl-only QP and 29 percent as any-gear QP. Trawl only QP will go to trawl only QS holders and trawl-only AMP QS. Any-gear QP will go to any-gear QS holders and any-gear AMP QS.

**QP Allocation Split Option 2:** the total amount of QP issued as any-gear QP will be the smaller of 29 percent of the trawl QP allocation and 1.8 million lbs with the remainder of the allocation issued as trawl-only QP. Trawl-only QP and any-gear QP will be distributed to QS holders and AMP, as indicated in Option 1.

## Procedure for Converting Northern Sablefish QS holdings to Trawl-Only and Any-Gear QS

NMFS will categorize current individual owners of sablefish north QS based on the participation criteria listed in the next section. After classifications have been completed, northern sablefish QS will be converted to trawl-only and any-gear QS using the following initial steps. After initial steps are completed, all QS amounts will be adjusted so that the total amount of QS held for each gear-specific northern sablefish QS type unit totals to 90 percent for QS accounts and 10 percent for QS reserved for AMP. The end result will be that in at least the first year after implementation, each QS holder would receive the same percentage of the total sablefish QP after the conversion that they would have if the conversion had not been carried out, except designated as trawl-only or any-gear QP.

### Initial steps:

**Excess QS.** All QS owned by an individual in excess of the amount the individual held as of the control date (September 15, 2017) will be converted to trawl-only QS. All other QS held by the QS owner at the time of conversion will be potentially **eligible** for conversion to any-gear QS, depending on the QS owner's status as determined by participation criteria and applied in the following steps.

2. QS owners **meeting the gear switching participation criteria** will have their eligible QS converted to any-gear QS.
3. QS owners **meeting the non-gear-switching participation criteria** will have their eligible QS converted to trawl-only and any-gear QS in preestablished ratios that are applied to each account. Those ratios will be established such that, when all of these initial steps are completed and results summed across all QS accounts, the ratio of trawl-only to any-gear QS would match the ratio of QP Allocation Split Option selected above and the combined total of trawl-only and any-gear QS comes to 90 percent.<sup>3,4</sup>
4. QS owners that **do not meet the gear switching or non-gear-switching participation criteria** ("Other Participants") will have 100 percent of their QS converted to trawl-only QS.

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<sup>3</sup> For QP Allocation Split Option 1, in the initial step, the total amount of QS issued to private accounts as trawl-only would be 63.9 percent and the total amount issued as any-gear would be 26.1 percent, i.e. 71 percent of 90 percent and 29 percent of 90 percent.

<sup>4</sup> If the Council chooses QP Allocation Split Option 2, the ratio will be the percentages that would apply under QP Split Option 2 for the year of the conversion.

5. For QS Accounts where the ownership interests reported to NMFS total to more<sup>5</sup> or less<sup>6</sup> than 100 percent, adjustments will be made so that the totals come to 100 percent.<sup>7</sup>
6. AMP QS will be designated as trawl only and any-gear in proportions that match the QP Allocation Split option selected above.

### **Adjustment Step:**

The amount of trawl-only QS and any-gear QS in each account after the initial steps will be adjusted by multiplying by an adjustment factor so that the result is that the total amount of each type of QS in QS accounts is 90 percent.

**Trawl Only QS:** The adjustment factor will be 90 percent divided by the sum of all trawl-only QS in all QS accounts.

**Any-Gear QS:** The adjustment factor will be 90 percent divided by the sum of all any-gear QS in the accounts.

The percentage of QS held as AMP will be expanded so that there are 10 percentage points of trawl-only AMP QS and 10 percentage points of any-gear AMP QS.

### **Participation Criteria for Use in QS Conversion Procedure:**

The participation criteria below are applied only to current QS owners. In general, these criteria will be applied to individuals (taking into account their ownership interest in QS accounts as reported to NMFS), including individuals within ownership group. For this purpose, trusts, non-governmental entities, and governments will be treated as individuals. To meet the participation criteria, a current QS owner must

have owned northern sablefish QS as of September 15, 2017; and  
for some criteria, have used a vessel or vessels under their ownership to meet participation criteria listed below.

Criteria requiring that a vessel owned by the QS owner be used to meet participation criteria does not also require that the QS owner maintain ownership of the vessel through to the control date or time of implementation. A vessel is considered to have been under the ownership of the QS owner if there is any degree of common ownership between the ownership of the vessel at the time it made qualifying landings and the QS owner (the QS owner need not be the full owner of the participating vessel). Vessel account information will be used to determine ownership of a vessel at any particular point in time and to

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<sup>5</sup> E.g., in some cases, where the partnership is considered a joint entity with rights of survival partnership, each individual is reported to own 100 percent of the partnership.

<sup>6</sup> E.g., QS owners are not required to report ownership interests of less than 2 percent. Therefore there are some accounts for which the total reported ownership is less than 100 percent.

<sup>7</sup> For QS Accounts where some ownership information is not reported, the proportion of unreported ownership will be treated as if it was owned by each of the other individual owners of the account, in proportion to the reported shares by those owners. If total ownership interest is in excess of 100 percent, the ownership of each individual entity will be proportionally reduced so that the ownership interests total to 100 percent.

determine linkage to QS account ownership as of the control date and at the time of implementation (current QS ownership).

**Gear-switching participant criteria:**

**Gear-switching Participant Option 1:** The QS owner owned a vessel that they used to make at least one gear switched landing of northern sablefish prior to September 15, 2017.

**Gear-switching Participant Option 2:** The QS owner owned a vessel or vessels that they used to make gear switched landings of at least 30,000 pounds of northern sablefish in each of three or more years prior to September 15, 2017.

**Non-gear-switching participant criteria:**

**Non-Gear-Switching Participant Option 1:** The QS owner owns sablefish north QS but does not meet the gear switching participation criteria (including QS account owners that do not own vessels).

**Non-Gear-Switching Participant Option 2:** The QS owner does not meet the gear-switching participation criteria but owns or owned a vessel that they used to land northern sablefish with bottom trawl in the IFQ fishery in any of the two years prior to the year in which the above QS conversions to gear-specific QS are conducted.

**Other Participation Criteria:**

Any QS owners not qualifying under the selected gear-switching and non-gear-switching participant options will be classified as “Other Participants.” Only if non-gear-switching participant Option 2 is selected would there be anyone in this category. Under Non-Gear-Switching Participant Option 2, in addition to QS owners that owned vessel owners but did not meet either the Gear-Switching or Non-Gear-Switching Criteria, “Other Participants” would include QS owning entities that did not own a vessel.

**Accumulation Limits:** The existing QS control limit (3.0 percent) and annual vessel use limit (4.5 percent) will continue to be applied for northern sablefish quota as a whole (without distinction by gear type). To determine a person’s holdings or usage relative to these caps, trawl-only quota (QS or QP) will be multiplied by 0.71 and any-gear quota will be multiplied by 0.29. This assumes that quota is issued in a 71/29 gear ratio. If another ratio is used, the multipliers will be adjusted as necessary.

**Discussion of Alternative 1**

See the June version of the alternatives ([Agenda Item F.5, Attachment 2, June 2022](#)) for additional discussion of Alternative 1, and see June 2022, 2<sup>nd</sup> Motion in Section 4.0 for the Council motion that resolved questions raised in that discussion.

**Terminology Change:** At the June 2022 meeting, it was identified that there was some confusion being created because of the terms used for various categories of QS owners—



specifically, the “IFQ participant” category. The term “IFQ participant” was being used for those not qualifying as a gear-switching participant, implying that gear switching participants are not participating in the IFQ program. Therefore, we changed the term “IFQ participant” to “non-gear-switching participant.” This still leaves one somewhat ambiguous term “Other Participant.” The term “Other Participant” would only apply if non-gear switching participation option 2 is selected and would be those who qualify as neither gear switching participants nor non-gear-switching participants.

**Treatment of trusts.** At the June Council meeting, the Council indicated that organizations such as trusts should be treated the same as other QS Account owners. In the process of staff working on the analysis, another question was identified: should an estate trust be treated the continuation of the ownership of the person for whom the estate was created or as a new owner? Analysts interpreted it as a continuation of the same ownership.

## **Action Alternative 2: Gear Specific QP Alternative**

**Overview.** A gear-specific QP ratio (trawl-only QP to any-gear QP) will be established for each QS Account. The ratio for each QS account will be based on the QS owner’s history of owning a vessel that gear switched. For a QS account owned entirely by gear switching participants, 100 percent any-gear QP would be issued up to the amount held on the control date. For all other QS, including QS accounts owned entirely by non-gear-switching participants or where the amount of QS is in excess of what was held on the control date, QP would be issued in a standard gear-specific ratio. This would result in three categories of QS accounts: 100 percent any gear, 100 percent standard ratio, and a blend of any gear and the standard ratio (i.e., QS account specific ratio). The standard ratio would be such that the total amount of any-gear QP issued to all QS accounts would be 29 percent of the trawl allocation.

### **Terminological Note:**

Any-gear QP: Same as status quo QP.

## **Full Description**

### **Trawl-Only and Any-Gear (Unrestricted) QP**

Northern sablefish QP will be issued as trawl-only QP and any-gear QP (unrestricted QP).

### **Annual Split of the Sablefish North QP Allocation Among QS Accounts**

**QP Allocation Split Option 1:** 71 percent of the trawl QP allocation will be designated as trawl-only QP and 29 percent as any-gear QP. The QP (including AMP QP) will be distributed to QS Accounts based on the gear ratios designated for each QS Account.

**QP Allocation Split Option 2:** the total amount of QP issued as any-gear QP will be the smaller of 29 percent of the trawl QP allocation and 1.8 million lbs with the remainder of the allocation issued as trawl-only QP. The QP (including AMP QP) will be distributed to QS Accounts based on the gear ratios designated for each QS Account.

## Procedure for Determining the Distribution of Any-Gear QP

NMFS will establish a procedure such that individual gear switching participants will receive 100 percent any-gear QP for sablefish QS they own as of the time of implementation (in proportion to their ownership interest in the QS account) but not for more than they owned on the control date.<sup>8</sup> The gear-switching participant's opportunity to receive 100 percent any-gear QP for those amounts of QS will be associated with the QS Account(s) that they own at the time of implementation in the form of a gear-specific ratio established for the QS account. The ratio based on a QSA owners gear switching participant status will not be transferrable to other owners or other QS Accounts, except as described under the Expired QS Account Expiration Option.

~~**Option – Expiration of QS Account's Connection to Gear Switching:** Additionally, if a new entity is added to the underlying ownership of an account, the ratio for the account will revert to the standard ratios. *Moved to Below*~~

For all other QS, any-gear and trawl-only QP will be issued in a “standard ratio.” The “standard ratio” will be predominantly trawl-only but also include a portion of any-gear QP. The standard ratio will be determined based on what is necessary to establish the overall trawl-only to any-gear QP ratio of the specified Annual QP Allocation Split (see above).

~~**Option – Expired QS Account Replacement:** If a QS account that is designated to receive any gear QP based on a link to a gear switching participant(s) expires and the gear switching participant(s) replace the QS account, then the new QS account will continue to receive any gear QP for the QS in the new account, at the same level as for the expired account. Replacement of an expired/expiring QS Account is defined to occur if the gear switching participant(s) immediately open another QS Account under an ownership group that is identical or has no new members and transfer the relevant sablefish QS to the new account. *Moved to Below*~~

## Adjustments to the Standard Ratio Over Time

The standard ratio will be adjusted each year as needed to establish the overall trawl-only to any-gear QP ratio specified QP Allocation Split Option (71/29 or some other amount). These adjustments will be needed as those QS owner that qualify as gear switching participants reduce or end their ownership of QS (QS for which 100 percent any-gear QP is issued).<sup>9</sup>

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<sup>8</sup> This may require a provision that allows entities which acquired additional QS after the control date and have more than one account to identify which accounts should be given the credit for the QS owned on the control date (examples of this type of situation exist in the current data).

<sup>9</sup> Over time, as individual gear switching participants divest themselves of their QS, the standard ratio will converge to the ratio specified by the QP Allocation Split Option.

## **QS Account Ownership Changes and Replacement** *(Contents Moved Here from Above)*

**Option—Expiration of QS Account’s Connection to Gear-Switching History:** ~~Additionally,~~ if a new entity is added to the underlying ownership of an account, the ratio for the account will revert to the standard ratios.

**Option—Expired QS Account Replacement:** If a QS account that is designated to receive any-gear QP based on a link to a gear-switching participant(s) expires and the gear switching participant(s) replace the QS account, then the new QS account will continue to receive (or be allocated) any-gear QP for the QS in the new account, at the same level as for the expired account. Replacement of an expired/expiring QS Account is defined to occur if the gear switching participant(s) immediately open another QS Account under an ownership group that is identical or has no new members and transfer the relevant sablefish QS to the new account.

### **Gear Switching Participation Criteria**

The participation criteria below are applied only to current QS owners. To meet the participation criteria, a current QS owner must

have owned northern sablefish QS as of September 15, 2017; and  
for some criteria, have used a vessel or vessels under their ownership to meet participation criteria listed below.

Criteria requiring that a vessel owned by the QS owner be used to meet participation criteria does not also require that the QS owner maintain ownership of the vessel through to the control date or time of implementation. A vessel is considered to have been under the ownership of the QS owner if there is any degree of common ownership between the ownership of the vessel at the time it made qualifying landings and the QS owner (the QS owner need not be the full owner of the participating vessel). Vessel account information will be used to determine ownership of a vessel at any particular point in time and to determine linkage to a current QS account owner.

**Gear-switching Participant Option 1:** The QS owner owned a vessel that they used to make at least one gear switched landing of northern sablefish prior to September 15, 2017.

**Gear-switching Participant Option 2:** The QS owner owned a vessel or vessels that they used to make gear switched landings of at least 30,000 pounds of northern sablefish in each of three or more years prior to September 15, 2017.

**Vessel Use Limit:** The existing annual vessel use limit (4.5 percent) will continue to be applied for northern sablefish quota as a whole (without distinction by gear type). To determine usage relative to this limit, trawl-only QP will be multiplied by 0.71 and any-gear QP will be multiplied by 0.29. This assumes that QP is issued in a 71/29 gear ratio. If another ratio is used, the multipliers will be adjusted as necessary.

## Discussion of Alternative 2

### Interpretations

The Council provided general guidance to develop a gear specific QP alternative (Alternative 2) based on the framework provided by the gear specific QS alternative (Alternative 1).

Include as a new alternative a variation on Alternative 1 in which the resulting distribution of trawl-only and any gear quota is done at the annual quota pound issuance step, rather than permanently converting quota share. All other provisions of Alternative 1 would remain the same.

Implementation of these directions required a number of interpretations. The gear-specific QS alternative gave consideration for historic participation (greater gear switching opportunity provided), associated the gear switching opportunity with QS that were transferable between QS accounts, and did not diminish total gear switching opportunity over time. An alternative that is based on attaching the gear designations to QP rather than QS, while still providing more opportunity for historic participants, requires addressing

a designation (i.e., way to track from year-to-year) of the opportunity provided for those with gear switching history  
transferability of the opportunity based on historic participation, and  
stability/changes to the total gear-switching opportunity provided over time.

Three central interpretations of the Council policy and motion drive most of the specification of the new QP Alternative (Alternative 2). If these interpretations change, then design of other aspects of the alternative are likely to change.

Assign the history-based gear switching opportunity to QS Accounts.  
Do not transfer the history-based opportunity between QS Accounts (i.e. do not create a new type of permit or transferable privilege).  
Maintain the trawl-only to any-gear QP splits (or “gear ratios”)\* over the long term (no attrition/reduction in the amount of any-gear QP issued over time)

*\*To simplify this discussion, it is assumed that the trawl-only to any-gear ratio is 71/29. The ratio might be slightly lower (an amount undetermined at this point) under the QP split option 2.*

These interpretations set the stage for the following additional interpretations:

- For any QS amounts not held by gear switching participants prior to the control date, issue trawl-only and any-gear QP in the standard ratio.  
Eliminate the “Other Participant” category of QS owner (leaving gear-switching and non-gear switching participant categories).<sup>10</sup>

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<sup>10</sup> In Alternative 1, all QS owners are classified as Gear Switching, IFQ, or “Other” participants. The participant classification determines the types of gear-specific QS received. In Alternative 2, the

The following provides additional explanation for each of these interpretations.

### **Assigning the Gear Switching Opportunity**

Interpretation: Assign the history-based gear switching opportunity to QS Accounts.

People with gear switching history will receive a proportion of any-gear QP higher than those without such history (up to 100 percent any-gear QP) for their QS. Under Alternative 1, the opportunity issued to those with qualifying history was attached to their QS through a one-time conversion of northern sablefish QS to gear-specific northern sablefish QS types. Under Alternative 2, once those who qualify are identified, what should that opportunity be attached to? What do we track over time? We identified two potential approaches:

QS Accounts  
QS owners

We selected the first of these approaches based on the following rationale. Tracking the opportunity through QS owners would require the tracking of individuals or groups that owned QS as of the control date indefinitely into the future. For group ownership situations (already present or those that develop in the future), it would require tracking not only the entities' and their participant statuses but also the tracking of their QS holdings as of the control date (their any-gear quota cap<sup>11</sup>) and allocation of that cap among different accounts that they come to own.

Associating the history-based opportunity with QS Accounts presents its own challenges but they are administratively less onerous and addressing these challenges results in a simplification of the alternatives.

### **Transfer of Gear-Switching History Opportunities**

Interpretation: Do not transfer the history-based opportunity between QS Accounts (i.e. do not create a new type of permit or transferable privilege).

Under Alternative 2, owners of QS that have gear switching history will be allocated 100 percent any-gear QP for QS in amounts up to that held on the control date (their cap). The policy contrast that Alternative 2 (gear specific QP) provides, in comparison to Alternative 1 (gear specific QS), is that with Alternative 2 there is implicitly no mechanism for the transfer of history-based opportunity from one owner to another (i.e. the history-based opportunity cannot be transferred between QS Accounts and therefore terminates at some point). If a QS Account expires, the history-based opportunity would expire, except that an option is provided for Council consideration that would allow owners with gear switching history to replace an expiring account with a new QS account without the loss of gear switching opportunities. QS Accounts expire

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classification would determine the amounts of each type of gear-specific QP deposited to the QS owners account.

<sup>11</sup> In order to avoid rewarding investments occurring after the control date, the amount of QS held on the control date is identified as a cap on the amount of QS for which gear-switching opportunities (any-gear quota) would be allocated.

with name changes or changes in the legal organizations (e.g. formation of an LLC) that might not involve any change in the underlying ownership interest. This option has been included for Council consideration for two reasons. First, the SaMTAAC gear-specific QP alternative included a provision that allowed such account replacement without loss of gear-switching opportunities. Second, a similar QS Account replacement provision is also included in Alternatives 3 and 4.

If it is the Council's intent to follow this interpretation and for QS Accounts to expire over time, such that eventually all accounts receive a standard ratio (i.e., there will not be any accounts with a ratio based on a history of gear switching) then the Council should also consider whether additional rules should be included for the expiration of QS Accounts. For example, QS Accounts might be maintained indefinitely by keeping the name of a business the same and changing the underlying ownership. If the desire is to avoid this, a provision might be included that would cause the account ratio to revert to the standard ratio with the addition of any new individuals to the underlying ownership interest (similar to the owner-on-board provision of the LEFG permit stacking program).

### **Maintaining the Initial Trawl-Only/Any-Gear QP Split**

Maintain the trawl-only to any-gear QP splits<sup>12</sup> (or “gear ratios”) over the long term (no attrition/reduction in the amount of any-gear QP issued over time)

As a first step, we prioritized maintaining the gear switching opportunities over time, since the Council directed that this new alternative be based on Alternative 1 and the any-gear quota issued under Alternative 1 does not diminish over time. This then has implications for how newly acquired QS is treated (QS acquired in excess of the amount owned on the control date).

*If instead, the Council wants to specify that attrition can occur (i.e., that the amount of any-gear QP be allowed to decrease over time), then the alternative will need to be reworked.*

### **Rule for “Newly” Acquired QS**

- Interpretation: For any QS amounts not held by gear switching participants prior to the control date, issue trawl-only and any-gear QP in the standard ratio.

The Alternative 1 rule for QS acquired in excess of the amount owned on the control date, is that it be converted to 100 percent trawl-only QS for all participants. After the point of implementation, there is nothing in Alternative 1 on how to treat newly acquired QS (since at that point, all QS has already been converted to trawl-only or any-gear). Under Alternative 2, possible approaches for allocating QP for QS acquired in amounts in excess of amounts owned on the control date include:

issue QP in the same gear ratio as for other QS in the account,

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<sup>12</sup> To simplify this discussion, it is assumed that the trawl-only to any-gear ratio is 71/29. There is an option by which the ratio might be slightly lower (an amount undetermined at this point).

issue trawl-only QP, and<sup>13</sup>  
issue QPs in a standard ratio (the ratio that applies for QS accounts not associated with a gear-switching history).

The last of these approaches was used and the reasons for that selection are described in the following paragraphs. The expected consequence of this approach, in combination with other provisions specified here, is that over time there will be no accounts for which any-gear QP would be issued based on a linkage to gear switching history. Thus, the end result would be that all QS accounts will receive trawl-only and any-gear QP in the same 71/29 ratio.

Over the long run, the first approach would be likely to result QS Accounts without a linkage to gear switching history receiving no any-gear QP—as QS is added to accounts receiving 100 percent any-gear QP. Thus, this approach is not viewed as consistent with Council policy objectives.

For QS acquired in excess of the amount owned on the control date, this left a choice between issuing 100 percent trawl-only QP or issuing trawl-only and any-gear QP in the standard ratio that applies for QS owners without gear switching history. It was assumed that for any QS acquired after implementation, QP would be issued in the standard ratio (so that the total amount of any-gear QP does not diminish over time). If after implementation QS Accounts linked to history were not given this standard ratio (e.g. given only trawl-only QP), this provision could be circumvented if a gear-switching participant or one of their associated simply opened a new QS Accounts, for which the standard ratio would be issued. Similarly, given that a standard ratio is to be issued for post-implementation QS acquisitions, if only trawl-only QP is to be issued for QS acquired in excess of the cap prior to implementation, anyone receiving trawl-only QP for the portion of their QS acquired during that period could circumvent that status by transferring QS in and out of accounts, such that it would appear as newly acquired QS to which the standard ratio would be applied. Given these opportunities for circumvention, Alternative 2 specifies that any QS acquired in excess of the amount owned on the control date will be issued trawl-only and any-gear QP in the standard ratio. This does not reward QS acquisitions after the control date, since the ratio is the same as what would apply after implementation. Further it simplifies Alternative 2 and its administration.

#### **Other Participant.**

Interpretation: Eliminate “Other Participant” category.

If all QP for QS in excess of the cap is to be issued in the standard split, there is no sense in having an “Other Participant” category that would receive 100 percent as trawl-only QP. If such a category is created initially, anyone assigned to this category could circumvent the provision and receive the standard split through a number of different strategies. For example, the Other Participant could allow their QS Account to expire, and acquire a new QS Account, for which QP would be issued in the standard split.

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<sup>13</sup> Instead of tracking across time which QS is newly acquired and which was in the account originally, each time QS is added the QS Account’s gear ratio would be adjusted so that the net effect is that trawl-only QP is issued for the newly acquired QS.

## Implementation Details

The alternative specifies that a procedure will be developed to track, through the QS Accounts, a gear-switching participant's opportunity to receive 100 percent any-gear QP for the amounts of QS held as of the control date and attributable to their ownership interests. This could be achieved in at least two different ways.

One approach could be to require that the amounts of QS that are to receive 100 percent any-gear QP be isolated in QS accounts that do not include any QS for which the standard gear-specific QP ratio would be issued.

Another approach could be to assign an initial gear ratio to each account based on the participation status of the account owners and amounts of QS owned as of and acquired after the control date: a ratio in which any-gear and trawl-only QP will be annually issued for each QS Account. As a result of the QS Account ratio approach, QP would likely be issued in two predominant gear ratios and a range of intermediate ratios:

Gear-switching participant owned accounts receiving 100 percent any-gear only.  
Non-gear-switching participant accounts receiving the same trawl-only/any-gear split for all accounts (standard ratio).

While most accounts will likely fall into one of the above categories, ratios would vary from the two predominant ratios in the following situations (creating a more continuous range):

If owners of an account owned by a group are in different participant categories (ratios for the accounts would be a weighted average based on each owner's ownership interest in the account).

When, prior to implementation, a gear-switching participant acquired QS in amounts that were in excess of what they owned as of the control date.

As the amount of QS for which 100 percent any-gear QP is issued declines, the ratios for all accounts would be proportionally adjusted to maintain the trawl-only any-gear QP split adopted for the alternative (71/29 or some other ratio). These two approaches are discussed in greater detail in an appendix to this document.

### **Action Alternative 3: Gear-Switching Endorsement—Permit Qualifier**

**Overview.** In the area north of 36° N. lat., a vessel's gear-switching activity will be restricted to a standardized relatively low annual gear switching limit except for vessels fishing under trawl LEP with a gear switching endorsements. Vessel fishing under endorsed trawl LEPs will have higher limits individualized for each permit based on gear-switching history, QS ownership, or a mix of the two. The amount of sablefish north gear switching allowed will be larger for gear-switching endorsed permits than for non-endorsed trawl permits. Gear-switching endorsements will be attached to trawl LEPs. Qualification for a gear switching endorsement will be based on ownership of a permit meeting the minimum qualification criteria for gear switching history. For some qualification options, as of and since the control date, the permit owners must have owned, the qualifying permit, northern sablefish QS, and possibly a gear switching vessel. The



endorsement might or might not expire when the permit to which it is attached is transferred. If endorsements expire with permit transfer, the higher gear-switching limits associated with endorsed permits would eventually phase out and all vessels would be restricted to the lower-level gear-switching limit provided for vessels fishing trawl LEPs that do not have gear-switching endorsements.

## **Full Description**

### **Gear-Switching Endorsement and Qualification**

Gear-switching endorsements will be attached to trawl LEPs and will not be severable from the permit. The gear-switching endorsement on a permit (or the absence of such an endorsement) will determine the northern sablefish gear-switching limit associated with the permit.

To qualify for a gear-switching endorsement, between January 1, 2011 and September 15, 2017 (the control date):

**Endorsement Qualification Option 1:** a permit must have landed northern sablefish QPs with non-trawl gear totaling at least 30,000 lbs per year in at least 3 years.

**Endorsement Qualification Option 2:** same as Option 1 plus, as of and since the control date, the current permit owner owned the qualifying permit and had some ownership interest in northern sablefish quota shares (any amount).

**Endorsement Qualification Option 3:** same as Option 2 plus, as of and since the control date, the current permit owner also had some ownership interest in a trawl permitted vessel that had some history of gear switching prior to the control date.

### **Sablefish Gear-Switching Limits**

**Trawl permits with gear-switching endorsements.** The gear switching limits apply to the QP used with the endorsed permit while gear switching. The annual sablefish north gear-switching limit for a trawl LEP that receives a gear switching endorsement is:

**Endorsement Limit Option 1:** the average percentage of the sablefish north trawl QP allocation caught by the qualifying permit with fixed gear for years<sup>14</sup> fished through either December 31, 2016 or September 15, 2017 (the control date), whichever results in the larger average.

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<sup>14</sup> Including 2017 through the control date.

**Endorsement Limit Option 2:** a percentage equivalent to the share of QP issued<sup>15</sup> for the sablefish north QS owned by the qualifying permit owner as of and since the control date, **plus** an additional amount which will be determined in two steps. First, calculate the difference between the aggregate gear switching limit that would be issued to all recipients based on QS ownership and 29 percent. Second, allocate that difference among all qualifying permits proportionally to each permit's limit under Option 1.

**Endorsement Limit Option 3:** a percentage equivalent to the share of QP issued<sup>15</sup> for the sablefish north QS owned by the qualifying permit owner as of and since the control date.

Under no circumstances will an endorsement limit be set above the annual vessel QP limit.

For Endorsement Limit Options 2 and 3, under no circumstances may the same QS be counted toward more than one limit.

Under circumstances where QS owners also own more than one qualifying permit, the QS owners may designate how credit for the QS owned should be divided among the gear switching endorsements to be issued to QS owners with more than one qualifying vessel.

**QS Account Expiration Exception (Applies to Endorsement Qualification Option 2 or 3).** If before program implementation, a QS account that was owned as of the control date expires and the owners of the qualifying permit replace the QS account, then the common ownership linkage to the new QS account will be considered to meet the requirement for having been in place as of the control date (both the expiring and new QS account must have contained northern sablefish QS). Replacement is defined as the immediate acquisition of another QS account and transfer sablefish QS to the new account, while maintaining ownership in the qualifying permit—or, for Qualification Option 3, while maintaining ownership of the qualifying permit and a gear switching vessel.<sup>16</sup>

**Vessel Replacement Exception (Applies to Endorsement Qualification Option 3).** If before implementation, the owners of a qualifying permit replaced a vessel that they owned as of the control date, then the common ownership linkage to the new vessel will be considered to meet the requirement for having been in place as of and since the control date. Replacement is defined as the divestment or loss of the previous vessel, associated with the previous or immediately following acquisition of a new vessel while maintaining ownership of the qualifying permit and QS account.

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<sup>15</sup> The share of QP issued would be equivalent to the percentage of QS owned plus a share of the AMP quota pounds which has been passed through to QS owners since the start of the program.

<sup>16</sup> A vessel with at least one gear switched landing of northern sablefish.

**Trawl Permits Without a Gear-Switching Endorsement.** The annual sablefish north gear-switching allowance for a trawl permitted vessel, except when fishing under a permit endorsed for gear switching, is the lesser of a specified percentage or 10,000 lbs.<sup>17</sup> The value for the specified percentage should be based on 10,000 lbs divided by the trawl sablefish allocation in a specific year or years (*to be determined*).

**Annual Vessel QP Limit.** Regardless of these gear-switching limits, trawl permitted vessels are not allowed to catch amounts in excess of the northern sablefish vessel QP limit (taking into account both the vessel's trawl and gear switched QP landings).

### **Other Species Gear-Switching Limit**

For all trawl permitted vessels, there will not be any gear-switching limits for other IFQ species.

### **Gear-Switching Limits and Permit Transfers.**

For gear-switching endorsed trawl LEPs, the gear-switching limits are associated with the permit. A vessel may sequentially fish under multiple gear-switching endorsed permits, catching all or a portion of the limit allowed under each permit (sequential registration).<sup>18</sup> If a permit is transferred midyear, fish caught using the permit and prior to the transfer still count against the permit's limit for the year.

### **Gear-Switching Limit Overages**

When a vessel reaches the gear-switching limit (as determined by the trawl LEP registered to the vessel), it may retain and sell any sablefish caught in excess of the limit but may not deploy non-trawl gear on any trawl IFQ sector trips taken during the remainder of the year.<sup>19</sup> The gear-switching limits are specified as limits on the maximum amount of sablefish QP that can be used to cover fish caught under the IFQ Program with non-trawl gear.<sup>20</sup> All gear-switching overages must be covered by QP. Any QP a vessel uses for gear switching in excess of its gear-switching limit will reduce the following year's gear-switching limit for the permit by the amount of the excess QP used. This applies to the permit being used by the vessel at the time of the overage.

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<sup>17</sup> This limit is *not* in addition to any amount that might be taken under a gear-switching endorsed permits.

<sup>18</sup> Permit Stacking and Joint Registration: As under status quo, this alternative does not allow trawl permit stacking (the registration of more than one trawl permit with a vessel at the same time). Similarly, as with status quo, joint registration of trawl and fixed gear permits continues to be permissible.

<sup>19</sup> A vessel that reaches the sablefish gear-switching limit would not be able to gear switch on subsequent trips even if it was targeting non-sablefish species and the chance of sablefish bycatch is extremely low. It would be able to continue to fish with trawl gear and retain sablefish caught, up to the annual vessel limit.

<sup>20</sup> Sablefish gear-switching limits are evaluated after applying credits for discard survival. Therefore, they are actually limits on total QP used (sablefish discard mortality and landings) rather than of catch.

*Suboption:* Any QP a vessel uses for gear switching in excess of its gear-switching limit will not reduce the following year gear-switching limit on the permit used when the limit was exceeded (i.e., eliminate the last two sentences of the above paragraph).

### **Combination of Trawl Permits**

Current management measures allow vessels to combine two permits to create a single permit with a larger vessel length endorsement. If trawl LEPs are combined and if there is a gear-switching endorsement on either permit, the permit resulting from the combination will have a gear-switching endorsement. If both of the combined permits have a gear-switching endorsement, then the larger of the two limits will be included on the resulting permit.

### **Endorsement Expiration**

**Expiration Option 1:** Gear-switching endorsements will expire<sup>21</sup> when the permit is transferred to a different owner or a new owner is added to the existing permit ownership<sup>22, 23, 24</sup> (ownership-based phase-down of gear switching).

**Expiration Option 2:** Gear-switching endorsements do not expire when the permit is transferred.

### **Discussion of Alternative 3**

See the June version of the alternatives ([Agenda Item F.5, Attachment 2, June 2022](#)) for additional discussion of Alternative 3 (Alternative 2 in the June documents), and see June 2022, 3<sup>rd</sup> Motion in Section 4.0 for the Council motion that resolved questions raised in that discussion.

### **Action Alternative 4: Gear-Switching Endorsement—Vessel Qualifier**

**Overview.** This alternative is identical to Alternative 3, except that qualification for a gear switching endorsement will be based on ownership of a vessel meeting the minimum qualification criteria for gear switching history (rather than the permit, as specified for Alternative 3).

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<sup>21</sup> Expire means the endorsement will be removed from the permit.

<sup>22</sup> For purpose of this provision, a change in ownership will be considered to occur when a new entity is added to the permit ownership but not when an entity leaves the permit ownership, e.g. partners may leave but new partners may not be added (using rules similar to those which apply to expiration of the owner-on-board exemption for the fixed gear permit system).

<sup>23</sup> A change in the name or organizational structure (e.g. from partnership to LLC) of the permit will not be considered a change in ownership for the purposes of these provision unless the change also involves the addition of a new entity or individual to the underlying permit ownership.

<sup>24</sup> The rule causing expiration of an endorsement with the addition of a new owner to the permit ownership interest, but not subtraction of an owner, would be similar to that which applies to expiration of the owner-on-board exemption for the limited entry fixed gear program. The intent is to allow, for example, a partner to leave the ownership or die without depriving the remaining owners of the opportunity provided. Addition of a new owner would be volitional on the part of the existing owners and could be used to effectively circumvent the intent of expiration-on-transfer provisions. Therefore, it is only addition of a new owner that would be considered the equivalent of a transfer that terminates the opportunity.

Similarly, for some qualification options, as of and since the control date, the vessel owner must have owned the qualifying permit, northern sablefish QS, and possibly a trawl LEP.

## Full Description

### Gear-Switching Endorsement and Qualification

Gear-switching endorsements will be attached to trawl LEPs and will not be severable from the permit. The gear-switching endorsement on a permit (or the absence of such an endorsement) will determine the northern sablefish gear-switching limit associated with the permit.

At the time of implementation, the owner of a qualifying vessel will designate a single trawl LEP to carry the gear switching endorsement.

To qualify for a gear-switching endorsement, between January 1, 2011 and September 15, 2017 (the control date), :

**Endorsement Qualification Option 1:** a vessel must have landed northern sablefish QP with non-trawl gear totaling at least 30,000 lbs per year in at least 3 years.

**Endorsement Qualification Option 2:** same as Option 1 plus, as of and since the control date, the current vessel owner owned the qualifying vessel and had some ownership interest in northern sablefish quota shares (any amount).

**Endorsement Qualification Option 3:** same as Option 2 plus, as of and since the control date, the current vessel owner also had some ownership interest in a trawl LEP.<sup>25</sup>

### Sablefish Gear-Switching Limits

**Trawl permits with gear-switching endorsements.** The gear switching limits apply to the QP used with the endorsed permit while gear switching. The annual sablefish north gear-switching limit for a trawl LEP that receives a gear switching endorsement is:

**Endorsement Limit Option 1:** a percentage equivalent to the average percentage of the sablefish north trawl QP allocation caught by the qualifying vessel with fixed gear for years<sup>14</sup> fished through either December 31, 2016 or September 15, 2017 (the control date) whichever results in the larger average.

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<sup>25</sup> Note: The permit is not required to have gear switching history.

**Endorsement Limit Option 2:** a percentage equivalent to the share of QP issued<sup>26</sup> for the sablefish north QS owned by the qualifying vessel owner as of and since the control date, **plus** an additional amount which will be determined in two steps. First, calculate the difference between the aggregate gear switching limits that would be issued to all recipients based on QS ownership and 29 percent. Second, allocate that difference among all qualifying permits proportionally to each permit's limit under Option 1.

**Endorsement Limit Option 3:** a percentage equivalent to the share of QP issued<sup>26</sup> for the sablefish north QS owned by the qualifying vessel owner as of and since the control date.

Under no circumstances will an endorsement limit be set above the annual vessel QP limit.

For Endorsement Limit Options 2 and 3, under no circumstances may the same QS be counted toward more than one limit.

Under circumstances where QS owners also own more than one qualifying vessel, the QS owners may designate how credit for the QS owned should be divided among the gear switching endorsements to be issued to QS owners with more than one qualifying vessel.

**QS Account Expiration Exception (Applies to Endorsement Qualification Options 2 or 3).** If before program implementation, a QS account that was owned as of the control date expires and the owners of the qualifying vessel replace the QS account, then the common ownership linkage to the new QS account will be considered to meet the requirement for having been in place as of the control date (both the expiring and new QS account must have contained northern sablefish QS). Replacement is defined as the immediate acquisition of another QS account and transfer sablefish QS from the old to the new account, while maintaining ownership in the qualifying vessel—or, for Option 3, while maintaining ownership of the qualifying vessel and permit.

**Trawl Permits Without a Gear-Switching Endorsement.** The annual sablefish north gear-switching allowance for a trawl permitted vessel, except when fishing under a permit endorsed for gear switching, is the lesser of a specified percentage or 10,000 lbs.<sup>27</sup> The value for the specified percentage should be based on 10,000 lbs divided by the trawl sablefish allocation in a specific year or years (*to be determined*).

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<sup>26</sup> The share of QP issued would be equivalent to the percentage of QS owned plus a share of the AMP quota pounds which has been passed through to QS owners since the start of the program.

<sup>27</sup> This limit is *not* in addition to any amount that might be taken under a gear-switching endorsed permits.

**Annual Vessel QP Limit.** Regardless of these gear-switching limits, trawl permitted vessels are not allowed to catch amounts in excess of the northern sablefish vessel QP limit (taking into account both the vessel’s trawl and gear switched QP landings).

#### **Other Alternative 4 Provisions**

*All other provisions of Alternative 4 are the same as Alternative 3.* The following are the headers for those provisions, along with any options included under the header.

### **3.3.II Other Species Gear Switching Limits**

#### **3.3.1(d) Gear-Switching Limits and Permit Transfers**

##### **3.3.1(e) Gear-Switching Limit Overages**

**Overage Option 1:** Any QP a vessel uses for gear switching in excess of its gear-switching limit will reduce the following year’s gear-switching limit for the permit by the amount of the excess QP used. This applies to the permit being used by the vessel at the time of the overage.

**Overage Option 2:** Any QP a vessel uses for gear switching in excess of its gear-switching limit will not reduce the following year gear-switching limit on the permit used when the limit was exceeded (i.e., eliminate the last two sentences of the above paragraph).

##### **3.3.1(f) Combination of Trawl Permits**

##### **3.3.1(g) Endorsement Expiration**

**Expiration Option 1:** Gear-switching endorsements will expire<sup>28</sup> when the permit is transferred to a different owner or a new owner is added to the existing permit ownership<sup>29, 30, 31</sup> (ownership-based phase-down of gear switching).

**Expiration Option 2:** Gear-switching endorsements do not expire when the permit is transferred.

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<sup>28</sup> Expire means the endorsement will be removed from the permit.

<sup>29</sup> For purpose of this provision, a change in ownership will be considered to occur when a new entity is added to the permit ownership but not when an entity leaves the permit ownership, e.g. partners may leave but new partners may not be added (using rules similar to those which apply to expiration of the owner-on-board exemption for the fixed gear permit system).

<sup>30</sup> A change in the name or organizational structure (e.g. from partnership to LLC) of the permit will not be considered a change in ownership for the purposes of these provision unless the change also involves the addition of a new entity or individual to the underlying permit ownership.

<sup>31</sup> The rule causing expiration of an endorsement with the addition of a new owner to the permit ownership interest, but not subtraction of an owner, would be similar to that which applies to expiration of the owner-on-board exemption for the limited entry fixed gear program. The intent is to allow, for example, a partner to leave the ownership or die without depriving the remaining owners of the opportunity provided. Addition of a new owner would be volitional on the part of the existing owners and could be used to effectively circumvent the intent of expiration-on-transfer provisions. Therefore, it is only addition of a new owner that would be considered the equivalent of a transfer that terminates the opportunity.

## Discussion of Alternative 4

See the June version of the alternatives ([Agenda Item F.5, Attachment 2, June 2022](#)) for additional discussion of Alternative 4 (Alternative 2 in the June documents), and see June 2022, 3<sup>rd</sup> Motion in Section 4.0 for the Council motion that resolved questions raised in that discussion.

## 4.0 COUNCIL MOTIONS ON GEAR SWITCHING

### September 2021 Motions (Agenda Item C.5)

#### September 2021, 1<sup>st</sup> Motion

I move that the following be added to the range of alternatives for analysis as the gear-based quota share alternative:

**Creation of trawl-only Quota Share (QS):** NMFS will create a new management unit from the existing Sablefish North IFQ management unit that will only be eligible to be fished by trawl gears. The existing IFQ management unit will continue to be eligible to be fished with any legal gear. For ease of reference, the resulting QS units are referred to as “trawl only” and “any gear.”

**Split of the Sablefish North trawl allocation:** After conversion both would be adjusted so that the total pool of QS for each is 90 percent (and 10 percent to the Adaptive Management Program). The QS conversion will achieve the Council’s specified split between the two QS types and then each will receive the specified percentage or amount of the trawl allocation of Sablefish North annually. The two options for analysis include:

- Option 1: 71% of the trawl allocation will go to trawl only QS and 29% any gear.
- Option 2: The any gear QS will receive the smaller of 29% of the trawl allocation or 1.8 million lbs with the trawl only QS receiving the remainder.

**Procedure for converting QS holdings:** NMFS will evaluate owners of Sablefish North QS against the fixed gear and IFQ participation criteria and then convert the QS using the following steps:

1. QS acquired by owners after the control date and in excess of what they held on the control date will be converted to trawl only QS.
2. QS owners that do not meet the fixed gear or IFQ participation criteria will have 100% of their QS converted to trawl only.
3. QS owners meeting the fixed gear participation criteria will have 0% of their QS converted to trawl only QS up to the QS they owned on the control date. QS acquired after the control date will be converted to trawl only QS.
4. QS owners meeting the IFQ participation criteria will have their QS converted at the rate that achieves the Council’s recommended allocation between the two QS units.

**Participation Criteria:** the criteria focus on QS owners with ownership tracked by the QS Permit. The term “vessel” refers to a vessel owned in full or part by the QS owner. Vessel ownership and fishing activity are evaluated based on the Vessel Account. And the term “fished” refers to landings of Sablefish North QP and activity that qualifies under the control date unless otherwise stated.

Fixed gear participation criteria options for analysis:

- Option 1: The vessel fished with fixed gear.



- Option 2: The vessel fished at least 30,000 QP in each of three or more years with fixed gear.

IFQ participation criteria options for analysis:

- Option 1: All Sablefish North QS owners not meeting the fixed gear participation criteria and irrespective of vessel ownership and fishing activity.
- Option 2: The vessel fished QP with bottom trawl gear in any of the two years prior to the year of QS conversion.

*Moved by Corey Niles*

*Seconded by Phil Anderson*

*Motion carries*

*Marci Yaremko voted no*

### September 2021, 2<sup>nd</sup> Motion

I move the Council include the following alternatives in the range adopted for further analysis and review:

#### No Action Alternative

Gear-Switching Endorsement Alternative (Action Alternative 2)

**Overview.** In the area north of 36° N. lat., a vessel's gear-switching activity will be restricted based on limits applied to its trawl limited entry permit and the size of the limit will depend on whether or not the permit has a gear-switching endorsement. The amount of sablefish gear switching allowed will be larger for gear-switching endorsed permits than for non-endorsed trawl permits. Gear-switching endorsements will be attached to permits ~~that have~~ **and based on a permit or vessel meeting a history of gear switching that meet** minimum qualification criteria **that include gear switching history and, under some options, linkage between permit, quota share and, or vessel ownership**. The endorsement might or might not expire when the permit to which it is attached is transferred. If endorsements expire with permit transfer, the higher gear-switching limits would eventually phase out and all vessels would be restricted to the lower level gear-switching limit provided for permits without gear-switching endorsements.

Full Description

**Gear-Switching Endorsement and Qualification.** Gear-switching endorsements will be attached to trawl limited entry permits and will not be severable from the permit. The gear-switching endorsement on a permit (or the absence of such an endorsement) will determine the northern sablefish gear-switching limit associated with the permit.

To qualify for a gear-switching endorsement, between January 1, 2011 and September 15, 2017 (the control date) the limited entry trawl permit **(Option for further analysis: or VESSEL)** must have landed northern sablefish IFQ with fixed gear totaling at least:

~~**Endorsement Qualification Option 1:** 10,000 lbs per year in at least 3 years~~  
~~Recent Participation Sub-Option: and participated in at least one~~  
~~year from 2016 through 2018.~~

**Endorsement Qualification Option 2 1:** **permit (option for vessel) has** 30,000 lbs per year in at least 3 years

~~Recent Participation Suboption: And participated in at least one year from 2016 through 2018.~~

~~**Endorsement Qualification Option 3:** 30,000 lbs per year in at least 3 years and participated in at least one year from 2016 through 2018; or caught 90,000 lbs of northern sablefish cumulatively across three years from 2014 to 2018, with at least one gear switched landing in each of the three years.~~

**(NEW) Endorsement Qualification Option 2:** permit (option for vessel) has 30,000 lbs per year in at least 3 years, AND quota share ownership (any amount) on the control date by the permit owner (option for vessel owner)

**(NEW) Endorsement Qualification Option 3:** permit (option for vessel) has 30,000 lbs per year in at least 3 years, AND quota share ownership (any amount) AND vessel ownership on the control date by the permit owner (for vessel owner option: “AND permit ownership on the control date by the vessel owner)

**IF VESSEL used as the qualifying entity, then at implementation, the vessel owner designates a LE trawl permit to carry the gear switching endorsement.**

### Sablefish Gear-Switching Limits.

**Trawl permits with gear-switching endorsements.** The annual sablefish north gear-switching limit for a gear-switching endorsed permits is:

**Endorsement Limit Option 1:** for each qualifying permit (option for vessel), the average percentage of the sablefish north trawl allocation caught with fixed gear for years fished between 2011 and the control date.

~~**Endorsement Limit Option 2:** the standard northern sablefish vessel QP limit (the current limit is 4.5 percent but this could change in the future).~~

**(NEW) Endorsement Limit Option 2:** Each qualifying permit owner (option for vessel) receives a gear switching limit equivalent to the percentage of quota share owned as of and since the control date; in addition, the difference between the amount thereby allocated and 29 percent will be allocated among all qualifying permits (option for vessel) proportionally to each permit’s (option for vessel) average annual gear switched landings (or the qualifying vessels landings) in years fished in the trawl IFQ program before the control date. This additional allocation will be operationalized as an addition to the permit specific limits (option for vessel).

**(NEW) Endorsement Limit Option 3: the percent of sablefish north QS owned by the qualifying permit owner (option for vessel owner) as of and since the control date**

**Trawl permits without gear-switching endorsement.** The annual sablefish north gear-switching allowance for a trawl vessel except when fishing under a permit not endorsed for gear switching is 10,000 lbs. 0.5 percent of the sablefish north trawl allocation.

**Gear-Switching Limits and Permit Transfers.** For both gear-switching endorsed and non-endorsed permits, the gear-switching limits are associated with the permit. If a permit is transferred midyear, fish caught prior to the transfer still count against the permit's limit for the year.

~~**Sequential Permit Registration.** A vessel gear switching under non-gear-switch endorsed permits (non-endorsed permit) may not exceed the 0.5 percent/year gear-switching limit by sequentially registering different non-endorsed permits during the same year. A vessel gear switching under a gear-switching endorsed permit may not increase its gear-switching limit beyond that allowed under the endorsed permit by sequentially registering a non-endorsed permit during the same year.~~ FOR FURTHER DELIBERATION: Should a vessel be able to expand its gear-switching opportunity by sequentially fishing under multiple gear-switching endorsed permits? **Yes**

**Combination of Trawl Permits.** Current management measures allow vessels to combine to permits to create a single permit with a larger vessel length endorsement. If trawl permits are combined and if there is a gear-switching endorsement on either permit, the permit resulting from the combination will have a gear-switching endorsement. If both of the combined permits have a gear-switching endorsement, then the larger of the two limits will be included on the resulting permit.

**Gear-Switching Limit Overages.**

When a vessel reaches the gear-switching limit (as determined by the permit registered to the vessel), it may retain and sell any sablefish caught in excess of the limit but may not deploy non-trawl gear on any trawl IFQ sector trips taken during the remainder of the year. The gear-switching limits are specified as limits on the maximum amount of sablefish QP that can be used to cover fish caught under the IFQ Program with non-trawl gear. All gear-switching overages must be covered by QP. Any QP a vessel uses for gear switching in excess of its gear-switching limit will reduce the following year gear-switching limit for its permit by the amount of the excess QP used. This applies to the permit being used by the vessel at the time of the overage.

Suboption: Any QP a vessel uses for gear switching in excess of its gear-switching limit will not reduce the following year gear-switching limit (i.e. eliminate the last two sentences of the above paragraph).

**Other Species Gear-Switching Limit.** For all trawl permitted vessels, there will not be any gear-switching limits for other IFQ species.

**Annual Vessel QP Limit.** Regardless of these gear-switching limits, trawl permitted vessels are not allowed to catch amounts in excess of the northern sablefish vessel QP limit (taking into account both the vessel's trawl and non-trawl QP landings).

**Endorsement Expiration.**

**Expiration Option 1:** Gear-switching endorsements will expire when the permit is transferred to a different owner or a new owner is added to the existing permit ownership (ownership-based phase-down of gear switching).

**Expiration Option 2:** Gear-switching endorsements do not expire when the permit is transferred.

*Moved by Maggie Sommer*

*Seconded by Bob Dooley*

*Motion carries*

*Marci Yaremko voted no*

**June 2022 Motions (Agenda Item F.5)**

**June 2022, 1<sup>st</sup> Motion**

I move to instruct staff to discontinue work on this action.

Moved by Corey Ridings

Second by Christa M. Svensson

Roll call vote. Voting no: Smith, Anderson, Moore, Pettinger, Watson, Hassemer, Oatman, Niles, Dooley.

Keeley Kent (NMFS) abstained.

Motion failed.

## June 2022, 2<sup>nd</sup> Motion

I move that the council advance the consideration of limiting gear switching in the Limited Entry Trawl Fishery and confirm the following guidance and intent relative to the questions raised in F.5 Attachment 3 specific to Alternative 1 (F.5. Attachment 2) and add a new alternative as described below.

### **Alternative 1: Gear Specific Quota Share Guidance**

*With respect to classifying QS owners as Gear Switching Participants, what degree of linkage between QS account owners and vessel owners should be required? Where linkages exist, how much of the QS in the account should be converted based on that linkage? **Focus on using the “individual” approach while maintaining the flexibility to use the “Collective” approach depending on the outcome of the analysis.***

*On what date should the linkage between a QS account owner and vessel owner be evaluated? **Use the Control Date.***

*If a collective approach is taken and linkages are valued based on some date in the past (e.g., the control date), what happens if a group splits up prior to implementation? **Only the partner that has had a history of owning a gear switching vessel would retain that status.** How might the individual/collective approach and linkage date requirements be applied with respect to the Individual Fishing Quota (IFQ) Participant option that requires a bottom trawl landing within two years prior to implementation? If a collective approach is taken, how would the conversion caps be applied if an ownership group breaks up prior to implementation? **Use the individual approach.***

*If a collective approach is taken, how would the conversion caps be applied if an ownership group breaks up prior to implementation? **If a collective approach is taken and the group breaks up prior to implementation, have a cap proportional to their share of ownership of QS as of the control date.***

*Under the collective approach, how is QS owned outside the ownership group treated? **Under the collective approach, the QS owned outside the group would not qualify for group classification status.***

*Application of criteria to trusts, non-governmental organizations (NGO)s, and governments. **Apply same as they would be applied to all other QS owners.***

*Application of formulas relying on share of ownership when ownership shares on record do not add to 100 percent. **Calculate based on reported percent of ownership.***

*Modification of QS control and annual vessel quota pounds (QP) limits to take into account the division of the northern sablefish allocation into two pools. **Apply existing accumulation limits only at the aggregate northern sablefish level, i.e. maintain the aggregate northern sablefish QS control limit (3 percent) and QP use limit (4.5 percent), as recommended by the GAP and GMT and do not apply adjustments to convert those into gear-specific limits.***

## **New Alternative**

Include as a new alternative a variation on Alternative 1 in which the resulting distribution of trawl-only and any gear quota is done at the annual quota pound issuance step, rather than permanently converting quota share. All other provisions of Alternative 1 would remain the same.

## **Staff Discretion**

In addition to this guidance, the intent is to provide Council staff with the leeway to modify the language of the alternatives to reflect the intent stated.

Moved by Phil Anderson Second by Bob Dooley

Motion carried.

Voting no: Ms. Christa M. Svensson and Ms. Corey Ridings

Abstain: Ms. Marci Yaremko

## **June 2022, 3<sup>rd</sup> Motion**

I move the Council confirm the following statements of intent regarding the requested provisions on which council guidance is needed ([F.5. Attachment 3](#)) for the gear switching range of alternatives and request that staff analyze alternative 2 according to this intent:

Prevent potential circumvention of qualification criteria and add provisions stated in the [SaMTAAC report](#) (page A-8) for exceptions that should be applied for certain circumstances of quota share account expiration and vessel replacement.

No double counting in complex ownership situations.

In complex ownership situations allow the involved owners to decide how to distribute credit for Quota Share (QS) accounts.

Gear switching limits based on QS should be adjusted to take into account Adaptive Management Program (AMP) Quota Pound (QP) distributions and add a safeguard statement that states, “Nothing in these provisions should be construed or implemented in a fashion that allows the gear switching endorsement limit to exceed the annual vessel QP limit”.

Partial years should be included or excluded based on whichever gives the individual an improved gear switching limit.

Non-endorsed trawl permits be specified as “the lesser of X percentage and 10,000 lbs”.

In addition, the Council requests that Council staff split alternative 2 based on the qualifying options of vessel or permit to reduce complexity and confusion for the analysis.

Moved by Jessica Watson

Second by Corey Niles

Motion passed. Ms. Christa M. Svensson and Ms. Corey Ridings voted no. Ms. Marci Yaremko abstained.

## 5.0 APPENDIX. IMPLEMENTATION DETAILS

### Alternative 2

As discussed in Section 3.2.2(b), Alternative 2 specifies that a procedure will be developed to track, through the QS Accounts, a gear-switching participant's opportunity to receive 100 percent any-gear QP for the amounts of QS held as of the control date and attributable to their ownership interests. This could be achieved in at least two different ways.

One approach would be to require that the amounts of QS that are to receive 100 percent any-gear QP be isolated in QS accounts that do not include any QS for which the standard gear-specific QP ratio would be issued. With this approach, if an individual or group owned both QS for which 100 percent any-gear would be issued and for which the standard ratio would be issued, then they would have to have two QS accounts. So as not to disrupt group ownership situations, rules would have to be established to deal with situations in which some members of a QS ownership group qualified as gear switching participants and others did not. These rules would need to be specified in a manner that ensure that the opportunity to receive 100 percent any-gear QP for a given amount of QS is not transferable to others.

Another approach would be to assign an initial gear ratio to each account based on the participation status of the account owners: a ratio in which any-gear and trawl-only QP will be annually issued for each QS Account. The initial gear ratio for each account would not change, except as described below. The initial gear ratio for each account would be determined by the participant classification status of each individual QS owner and the individual owner's ownership interest in the QS account. The gear ratio for the amount of QS owned on the control date and attributable to a gear switching participant will be 100 percent any-gear. Any QS acquired by gear switching participants in excess of the amount owned on the control date would receive the same standard ratio given to all other participations. The gear ratio attributed to all other participants for QS (the "standard ratio") will be predominantly trawl-only but also include a portion of any-gear QP. The standard ratio will be determined based on what is necessary to achieve the selected Annual QP Allocation Split. Where an account is owned by multiple owners, the QS Account gear-ratio will be an average of the ratios for the individual owners, weighted by their ownership interests.

There are two circumstances in which the gear ratios for an account will change. First, for accounts with some QS owned by a gear switching participant, once the ratio for an account is determined, if later more QS is added to the account, the ratio will be adjusted such that the newly added QS will effectively receive QP in the standard ratio. Thus, for accounts linked to gear switching history, the ratio for the account may be a blend of what was initially provided for the account and the standard ratio. If the amount of QS in the account is reduced, it will not impact the account ratio. Second, the standard ratio will be adjusted as needed to establish the trawl-only any-gear QP ratios specified by the selected QP Allocation Split Option (71/29 or some other amount). Adjustments to the standard ratio will be needed as the amounts of QS for which



100 percent any-gear QP is issued decline (as will occur as individual gear switching participants divest themselves of QS).<sup>32</sup>

As a result of the QS Account ratio approach, QP would likely be issued in two predominant gear ratios and a range of intermediate ratios:

Gear-switcher owned accounts receiving 100 percent any-gear only.  
Non-gear-switching participant accounts receiving the same trawl-only/any-gear split for all accounts (standard ratio).

While most accounts will likely fall into one of the above categories, ratios would vary from the two predominant ratios in the following situations (creating a more continuous range):

If the individual approach is used and owners of an account owned by a group are in different participant categories (ratios for the accounts would be a weighted average based on each owner's ownership interest in the account).

When, prior to implementation, a gear-switching participant acquired QS in amounts that were in excess of what they owned as of the control date.

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<sup>32</sup> Over time the standard ratio will converge to the ratio specified by the QP Allocation Split Option.