Materials submitted to
Board of Fisheries Restructuring Committee from
Charles Treinen

relative to use of multiple drift gillnet permits

Alaska Board of Fisheries - Restructuring Proposal Form

Please answer the questions below as completely as possible. Your response will likely require multiple pages and considerable time and effort. Some questions may not be applicable to your proposal. Some questions may be quite difficult to answer; incomplete answers will not necessarily disqualify your proposal.
Please carefully read the instructions on page 2 before answering the questions.

1) What regulatory area, fishery, and gear type does this restructuring proposal affect?

Bristol Bay, Salmon, Drift Gillnet. (CFEC Permit: S03T)

The 2006/2007 in-cycle proposal relegated to the restructuring process by the BOF during the December 2006 meeting in Dillingham, AK is copied below. Seven separate proposals dealing with the allowing one individual to operate two separate permits on one vessel were listed in that year's proposal book.

PROPOSAL 21 - 5 AAC 06.333. Requirements and specifications for use of 200 fathoms of drift gillnet in Bristol Bay. Amend this regulation as follows:

Allow one person to own and benefit from the permit stacking privileges granted by the board in the Bristol Bay driftnet fishery as allowed by 2006 legislation.

ISSUE: Too many participants in the Bristol Bay fishery as indicated in the Commercial Fish Entry Commission's optimum number study. Present regulations allow vessels to "stack" permits provided that the permits are held by different individuals. Allowing the two permits to be held by one individual will reduce the transactional difficulties in having separately owned permits on one vessel.

WHAT WILL HAPPEN IF NOTHING IS DONE? The incentive to "stack" permits will not be sufficient to adequately reduce the amount of gear on the grounds contributing to continued economic distress, management difficulty and enforcement of the regulation.

WILL THE QUALITY OF THE RESOURCE HARVESTED OR PRODUCTS PRODUCED BE IMPROVED? Yes. With fewer vessels, quality problems inherent in line fisheries will be reduced.

WHO IS LIKELY TO BENEFIT? Bristol Bay drift permit holders and crews as fewer vessels and less gear per permit will give more opportunity for the remaining vessels and fishermen.

WHO IS LIKELY TO SUFFER? Those who are satisfied with crowded fishing grounds, low returns on their commercial fishing businesses and substandard fish quality.

OTHER SOLUTIONS CONSIDERED? Additional privileges for stacking with two separate permit holders on board, however, the transactional difficulties would still not be resolved.

PROPOSED BY: Charles W. Treinen (HQ-06F-044)

2) Please thoroughly explain your proposal. (See Part II, Question 2 of the instructions on page 2 for important guidance on how to answer this question).

- *This proposal would allow for simplified 'permit stacking' for the Bristol Bay salmon driftnet fishery (S03T) so that one person can own and benefit from ownership of more than one drift gillnet permit. Present regulations passed by the BOF in 2003 allow for one vessel with two separate permit holders aboard to operate one third more gear than a vessel with one permit holder—providing that no other restrictions such as those imposed in 'Special Harvest Areas' apply. This proposal would allow one person owning two permits to have the same 'permit stacking' opportunities on a single vessel.*

- *(Note: Present gear limit per vessel when not confined to special harvest areas with one permit holder aboard is three shackles, 150 fathoms; while four shackles, 200 fathoms, can be used if two separate permit holding individuals are aboard)*

Specific questions to be addressed under this section:

a) Will this proposal require initial harvester qualification for eligibility?
   a. *N/A No additional issues outside of permit ownership as established by the CFEC*

b) Are there new harvesting allocations?
   a. *N/A This proposal does not deal with harvest allocations.*

c) What means, methods, and permitted fishing gear are proposed?
   a. *N/A No changes in means, methods or gear is proposed.*

d) Is a change in vessel length proposed?
   a. *N/A No vessel length change is proposed.*

e) Is transferability of permits or harvest privileges affected?
   a. *Transferability is not affected. The proposal does not specify, require or advocate any permanent bundling of permits. Any stipulation to combine permits would negate the proposal's purpose and utility. Requiring any bundling of permits that would compromise sale and transfer would require some level of compensation to make it economically viable.*
   b. *Extra harvest privileges already granted to one vessel with two separate individual permit holders would be extended to one individual owner of two permits on a single vessel.*

f) Is there a defined role for processors?
   a. *N/A The proposal does not affect processing issues or companies directly although they would likely support the idea.*

g) Will the proposal be a permanent change of regulation?
   a. *The proposal need not be permanent, but would create some difficulty and permit market instability if it was not permanent.*

h) If adopted, will the proposal require a change in monitoring or oversight by ADF&G?

a. *No change is needed since present regulations allow for 'permit stacking' on a single vessel—just not when permit ownership is in the name of one person.*

i) Will vertical integration (e.g. harvesting and/or processing) or consolidation occur? Will limits be imposed?

a. *No vertical integration aspects are related to this proposal.*

b. *Since permit consolidation is a primary reason for 'permit stacking' options, this proposal necessarily promotes some level of permit consolidation as supported by CFEC optimum number studies. Given that there are 1857 available drift gill net permits in the Bristol Bay fishery and that the CFEC report set a range of between 900 to 1400 permits, it is mathematically impossible for the incentives of this proposal to consolidate below the equivalent of 1238--150 fathom equivalent units of gear if all permit holders owned two apiece!*

Calculated as follows:
1857permits /2 permits per permit holder
X 1.333 units of gear per vessel
= 1238 permit equivalents per vessel).

Given that not all permit holders will choose to own two, the effective number of permits as reflected by the amount of gear will remain well above the lower range established in the CFEC's Optimum Number Study[1]

j) How do you propose to monitor and evaluate the restructured fishery?

a. *The fishery could be monitored and evaluated in accordance with its effectiveness in approaching the consolidation goals and profitability expectations set forth by the CFEC in their optimum numbers study.*[2]

b. *As a simplified method of reviewing the effectiveness of the restructuring would be to monitor and evaluate the amount of permit latency as a indicator of the fishery's economic health—i.e., fewer latent (unused) permits indicates a more profitable fishery.*

c. *In a similar fashion, monitoring and evaluating the number of dual permitted vessels would provide information on the level of consolidation provided by the given 'permit stacking' incentives.*

k) Is there a conservation motive behind the proposal?

a. *There is no direct conservation motivation intended by this proposal.*

l) What practical challenges need to be overcome by this proposal?

a. *There are no direct practical challenges given that legislation authorizing the regulation has been enacted, that other similar proposals have been promulgated by the Board and that this is only an incremental change that doesn't effect implementation of the regulation or have any additional administrative costs.*

b. *Indirect challenges that need to be overcome include:*
    i. *Providing adequate information to the Board*
    ii. *Getting support for the proposal from the local advisory committees*
    iii. *Having the issues aired adequately to get needed support from communities*
c. *The above challenges should be overcome through a valid restructuring process that evaluates the economic, social and political issues in a rational setting.*

3) What are the objectives of the proposal?

The general objectives for the 'permit stacking' privileges of 2003 and this related proposal include:

- *Reducing the number of unused 'latent' permits.*
- *Reducing costs of activating an unused permit by using an already active vessel while reducing the overall amount of gear in the water.*
- *Increasing the economic return for participants in the fishery including skippers and crew.*
- *Reducing the negative impact of reactivated permits on active fishing operations that have made investments in improving the fishery.*

The specific objectives for the proposal include:

- *Reducing the transactional difficulties inherent in having two separate permit holders on a single vessel.*
- *Limiting the incentive for illegal permit transfers*

4) How will this proposal meet the objectives in question #3?

The general objectives of the original 'permit stacking' regulation of 2003—reduction of permit latency, consolidation of effort, activation of unused permits, increased profitability for active fishing operations, etc.--remain unchanged or strengthened by this proposal.

Transactional difficulties inherent in finding a suitable second permit holder for a given vessel would be reduced by allowing dual permit ownership and use by a single individual. The present regulation is unnecessarily cumbersome because of issues such as difficulty of locating an additional permit holder, coordinating operational plans with a second permit holder and operating two separately owned permits on the same vessel. In other words, the proposal will eliminate inherent transactional issues encountered when attempting to safely and effectively operate a vessel with more than one authority/captain.

The proposal will also reduce the incentives for permit holders to make illegal or financially risky transfers. Since individuals are allowed by statute to own and operate two permits, without the BOF regulation to authorize the use both permits, an individual has a financial incentive to transfer one permit to another person on the vessel in order to take advantage of legal permit stacking options. Such transfers are contrary to the intent of permit ownership in the State's limited entry program and also put the permit holder's investment at risk since there is no way to legally encumber a CFEC permit.

5) Please identify the potential allocative impacts of your proposal. Is there an allocation or management plan that will be affected by this proposal?

There are few if any immediate allocation issues either between fisheries or within a fishery. Realizing that the proposal is only an incremental change relating to permit ownership for Bristol Bay drift gill net permits, allocations to set net fisheries, as set out in the management plan, are not affected. No allocation impacts are imaginable for fisheries outside of Bristol Bay by enacting this proposal.

Some may claim that the proposed regulatory change would disadvantage smaller vessels and those individuals unable or unwilling to purchase an additional permit, thereby changing some perceived allocation formula within the drift gill net fishery. While the realities of competition in a market economy and the purpose of commercial fishing—to harvest fish for sale and profit—may result in perceived allocation biases regardless of the regulatory regime, there is no effect on the management plan other than reducing the number of vessels on the water for a given number of active permits. The proposal is, in fact, beneficial to all as it effectively reduces the amount of net in the water to the benefit of those remaining. Considering that one permit on a vessel allows for a full--150 fathom--complement of gear unless other restrictions apply, while the second only allows for an additional third—50 fathom, the expense involved in an additional permit is not necessarily justified, especially when the permit values climb as they have in recent years. Also, since additional time is needed to haul more gear, the effectiveness of the extra gear allowance is further limited. The estimated proportional value of a second permit on board is generally considered by the fleet to be 25% at best. Consequently, the individual who only has one permit is getting the full fishing power available for the one permit investment while the individual with two permits is only getting fractional fishing power for each permit. Since it is not mandatory to 'stack' permits, the proposal will allow market-based decisions related to costs and benefits of dual versus single permit ownership. Ultimately, it would be difficult to validate any claim about de facto allocation impacts within the drift gill net fishery.

Also, given that the CFEC 'Optimum Numbers' study indicated that the number of drift permits should be substantially reduced—from 1857 to between 900 and 1400, it is in the state's interest to make some level of allocative choice that allows for those remaining in the business to make a reasonable income.[3]

The argument can also be made that this proposal allocates too much to the small single permit operator at the expense of those who are more capitalized and better able

to produce a higher quality product through, for example, investments in chilling equipment, additional crew needed for bleeding fish or fish hold configuration that minimizes handling damage. Given that fishermen, support industries, communities and the State of Alaska as a whole benefit from higher prices available through quality improvement, the reallocation argument looses economic significance and is effectively a 'red herring'.

6) If the total value of the resource is expected to increase, who will benefit?

While the proposal is initially designed and only serves its purpose if it benefits those interested in dual permit ownership, there are positive effects for others in the fishery as well. As stated previously, dual permit ownership decreases the fishing power available to each of the dually held permits so that the total amount of gear in the water is less than the amount allowed if each permit is operated separately. Ultimately, all active permit holders benefit when there are fewer nets out on the fishing grounds.

Ex-vessel fish price increases brought about through investment in quality-improvement, will accrue throughout the fleet as broader markets develop—e.g. those markets accepting un-chilled fish will be supplied with fewer fish, less likely to be on limit and able to command a higher price. With present depressed prices partly the result of and oversupply of canned sockeye, it is reasonable to believe that a more limited pack would better match demand at a higher price. More stacking of permits will also effectively attenuate the 'race for fish' with its inherent incentives that favor quantity over quality. Any management change that promotes quality handling over quantity production will have broad, positive, effects on ex-vessel price. While this proposal is limited in its reach and can only have an incremental effect, it will encourage better handling practices at the margin as well as allow for more profitability by cutting costs for overhead items such as fuel, gear and insurance. The fishery as a whole will benefit to the extent that enactment of this proposal encourages quality-enhancing practices such as onboard refrigeration, bleeding and 'tanking'.[4]

7) What will happen if your fishery is not restructured as your proposal recommends, and how is this proposal an improvement over current practices?

Since this proposal is only asking for an incremental change in the way ownership of dual permits on one vessel is allowed, its restructuring effects are somewhat limited and only partially address broader issues needed for economic prosperity in the Bristol Bay salmon fishery. As stated in Section 3-'Objectives', the proposal will function to reduce the amount of gear in the water while also cutting the number of latent permits.[5] *In addition, the proposal would simplify transactional costs and reduce the incentives to engage in illegal and financially risky permit transfers.*

Without responding to market demands through some level of restructuring as a whole—this proposal is but one component--the fishery will become unprofitable for a greater portion of the fleet over time and provide less net income and wealth for

fishermen, families, support businesses, communities and the state. While economic devastation may not be an immediate consequence without this particular restructuring aspect, it perpetuates a system that produces substandard products--as indicated by countless surveys and industry reputation, substandard profits--as shown by the CFEC 'Optimum Numbers' study[6], along with inefficient use of resources and much forgone wealth as shown by the 2004 BBEDC Restructuring report.[7]

While the fishery has seen increasing and record-setting runs in recent years, returns closer to average or below--as experienced in 1998, 2001 and 2002--at current price levels would be financially devastating to many. Permit reduction is one way to minimize economic distress during the inevitable years when runs are weaker than average. It can also be noted that longer term price projections show values that are insufficient to maintain the fleet at the present size over the long run.[8]

8) Considering the history of the commercial fishery, what are the potential short- and long-term positive and negative impacts on:

a) the fishery resource;
   - *i. No negative biologic impact on the fishery is expected.*
   - *ii. In the longer term, the resource will benefit to the extent that it is affected by unnecessary and inefficient energy consumption required for harvest of available stocks.*
   - *iii. While probably a minor effect in this case, having fewer vessels in the fishery may simplify management decision making.*
   - *iv. Efficient use of vessels and equipment allows for more economically beneficial use of the resource—i.e. as net profits are enhanced through some level of consolidation and efficiency, the economic value/wealth of the fishery increases.*
   - *v. Increase in quality*

b) harvesters;
   1. Economic Efficiency of the Harvesting Function
      - i. + *Increased catching power to cover the overhead costs of vessel operation—insurance, fuel, provisions, maintenance, storage, etc.—i.e. increased economic efficiency of harvest.*
      - ii. + *lowered operating costs—e.g. increased economic efficiency of harvest through lowered costs for fuel, insurance, outfitting, etc.*
      - iii. + *increased profitability/ability to support and contribute to local economies*
      - *iv.* + *reduced permit latency/more stable incentive for investment*
      - *v.* - *increased capital costs assuming dual permits and an increase in permit price--(offset by stability of asset value)*

vi. + *Increased ex-vessel prices for all participants*
vii. + *Encourage needed investment in the fishery*
viii. + *More stable employment for crew (albeit at a marginally lower number)*
ix. + *Wealth generation*
x. + *Reduce the amount of web in the water*
xi. + *Market-based effort reduction*
xii. + *Increased quality and value of the resource would encourage more competitive buying and better market access for all fishermen.*

2. Species Interdependence Impacts
   i. *This proposal is not expected to have any species interdependence impacts.*

3. Harvesting Asset Ownership Impacts
   i. + *reduced permit latency/more stable incentive for investment*
   ii. + *reduced financial risk and illegal permit transfers*
   iii. + *Encourage needed investment in the fishery*
   iv. + *reversible fleet consolidation without the need for state or federally funded buyback*[9]

4. Distribution of Harvest Value
   i. *Fewer skippers and crew/asset ownership consolidation-- those remaining will be better off*
   ii. *While a greater proportion of the harvest may go to an individual/vessel with two permits, the others benefit through the reduction in total gear in the water.*
   iii. *On a return per permit basis, those <u>not</u> buying a second permit will appropriate a greater share*

5. Market Access
   i. *Market access for all fishermen is not expected to be significantly changed from the present*
   ii. *Increased quality and value of the resource would encourage more competitive buying and better market access for all fishermen in the long term.*

c) the sector, species, and regional interdependence relationships;

As stated previously, the fishing sector, though necessarily reduced in number of participants, would tend to be profitable for those remaining.

The species—primarily sockeye salmon in this case—could become more valuable through increased marketability. Little or no direct effect can be expected on the biology and management.

Interdependence with other fisheries is expected to be unchanged through enacting this proposal.

Interdependence between communities would be affected to the extent that profitability of remaining fishing businesses would be enhanced through more catching power for fixed overhead expenses and investments designed to increase the value of the harvest. The primary issue is that only profitable businesses can provide the needed economic basis for community prosperity. Without giving fishing businesses the tools needed to invest and economize, the fishery will continue to provide lower than expected economic sustenance for communities of the region.

d) Safety;

Safety is an issue to the extent that safety is enhanced by having larger, better equipped and better maintained vessels. It can also be argued that a profitable fishing business operator is less likely to take unnecessary risks in competitive aspects of harvesting the fish.

d) the market;

1. Market Access and Product Form
    i. *Market access for all fishermen is not expected to be significantly changed from the present*
    ii. *Product form may be affected to the extent that investments in the fishery and profitability will encourage experimentation with new products and processes*

2. Market Timing
    i. *Allowing one person to operate dual permits on one vessel would be expected to create opportunities for profitable operation at more marginal harvest rates expected during early and late portions of the season*

3. Competitive Opportunities
    i. *Increased quality and value of the resource would encourage more competitive buying and better market access for all fishermen in the long term.*
    ii. *Competitive market opportunities for others are not expected to be compromised*

4. Other

i. *As previously noted, both short term and long term salmon markets are enhanced by the efficiencies and incentives of this proposed 'restructure' to the extent that increased profitability supports investment in quality production—e.g. refrigeration, hold insulation, equipment, crew training, etc.*

ii. *The market for permits and vessels would be somewhat more stabilized through the certainty of knowing that investments in those items could be used more efficiently.*

f) Processors; and

5. Economic efficiency of the processing function

i. *Processors are likely to benefit immediately by having fewer separate permit holders to deal with in catching the same amount of fish.*

ii. *To the extent that increased profitability supported by enactment of this proposal encourages higher quality production, the increased marketability of the fish will have benefits that accrue to the entire industry including processors.*

6. Species Interdependence

i. *Species interdependence for processing is unrelated to this proposal*

7. Distribution of Product Value

i. *This proposal is not expected to affect processor distribution of value*

8. Market Access

i. *Given that the affect of this proposal will not reduce the number of permits below the optimum numbers cited by CFEC, there is not any significant effect on processor access to product.*

g) Local communities.

1. Employment enhancement, displacement and loss

i. *As previously noted, the proposal is expected to result in incrementally fewer skippers and crew, but those remaining will be better off because the fishing business can potentially be more profitable*

ii. *Since permits under this proposal can be dissociated as determined by individual owners based on market conditions so that there is no permanent loss of employment*

iii. *Since it is not clear whether holders of latent permits from local communities are actively seeking opportunities to partner*

with active vessels or simply selling out to the highest bidder, the immediate effect of this proposal is uncertain.

2. Municipal revenue impacts
   i. *Those communities with active permit holders and vessels capable of using dual permit options will benefit to the extent that those individuals invest in second permits and hire local crews.*
   ii. *The reasonable presumption is that fewer profitable fishing operations based in local communities are more beneficial than more unprofitable businesses that provide inadequate jobs.*
   iii. *In the long run, local communities benefit directly through sharing of the fisheries business tax whenever ex-vessel prices increase and indirectly through the additional economic activity that occurs when businesses, individuals and families have more disposable income that is possible through this proposal.*

3. Industry infrastructure impacts
   i. *Since this proposal is only a small change in regulation, the impacts to infrastructure are expected to be modest at best.*
   ii. *Industry infrastructure is impacted to the extent that the proposal promotes profitable operations that justify further investment in infrastructure*

4. Species interdependence impacts
   i. *There are no known species impacts for this proposal*

5. Ownership of local harvesting and processing impacts
   i. *As previously noted this proposal is for an incremental change and may have some modest but reversible impact on local ownership of harvesting capability.*
   ii. *No affect is expected for processing*

6. Gain or loss of associated business
   i. *Since gain or loss of associated business is related to profitability of a fishing operation, associated business will gain or lose to the extent that this proposal encourages profitable operations.*

9) What is your understanding of the level of support for your proposal among the harvesters, processors, and local communities?

- *Support for this proposal among active fishermen is believed to be broad and is reflected in the multiple—seven separate and a few related--*

proposals presented to the BOF during the December 2006 in-cycle meeting.

- *Support for the need to enable consolidation measures such as this stacking proposal is also reflected in passage of HB 251 during the 2006 legislative session that removed statutory prohibitions for one person to operate two permits in the same fishery.*

- *Based on Advisory Committee Reports, support by local communities for this proposal is mixed.*

10) What are the potential short and long-term impacts on conservation and resource habitat?

- *While there may be a number of positive indirect impacts on conservation and habitat related to reducing energy usage and inefficient operations, direct impacts are believed to be undetectable.*

11) What are the potential legal, fishery management, and enforcement implications if this proposal is adopted? What other governmental actions may need to be taken into account?

- *Since the statutory prohibition against enacting this proposal was eliminated through enactment of HB 286 in 2003 and HB 251in 2006, no further legislative action is necessary as stated in the 11/28/06 CFEC memorandum to the Board.*[10]

- *Any management or enforcement issues were addressed in conjunction with 2003 BOF 'permit stacking' regulation that allowed one vessel to fish two permits with a third more gear. There would be no difference in management or enforcement under this proposal.*

- *Also, since the BOF has passed two separate 'restructuring' proposals—one in Cook Inlet and one in Kodiak—during the 2007/2008 Board cycle, any management or enforcement issues have been addressed and are considered to be workable.*

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References/Endnotes:

[1] Bristol Bay Salmon Drift Gillnet Fishery Optimum Number Report; CFEC Rpt 04-3N. Schelle, K., K.Iverson, N. Free-Sloan and S. Carlson.2004; http://www.cfec.state.ak.us/RESEARCH/04_3n.htm

[2] http://www.cfec.state.ak.us/RESEARCH/04_3n.htm

[3] http://www.cfec.state.ak.us/RESEARCH/04_3n.htm

[4] 'Tanked' refrigerated vessels will float fish to minimize damage from bruising, crushing, broken tails and other physical damage to the fish as well as chilling the fish faster through full immersion in the refrigerated water.

[5] Permit latency creates a disincentive to invest since any benefits of investment made by participants can be dissipated by activation of unused permits.

[6] Bristol Bay Salmon Drift Gillnet Fishery Optimum Number Report; CFEC Rpt 04-3N. Schelle, K., K.Iverson, N. Free-Sloan and S. Carlson.2004; http://www.cfec.state.ak.us/RESEARCH/04_3n.htm

[7] http://www.bbedc.com/documents/ExecSumm2-05.pdf

[8] Projections of Future Bristol Bay Salmon Prices - a special report prepared for the Commercial Fisheries Entry Commission by Gunnar Knapp, Institute of Social and Economic Research, University of Alaska Anchorage. Executive Summary (PDF, 88 KB) Complete Report (PDF,1.4 MB)

[9] November 28, 2006 Memorandum from the Commercial Fisheries Entry Commission to the Board of Fish and recorded as RC5.

[10] November 28, 2006 Memorandum from the Commercial Fisheries Entry Commission to the Board of Fish and recorded as RC5.