

Bering Sea/Aleutian Islands (BSAI) Crab Rationalization Program

Analysis of the A share/B share split and continuation of the Crab Advisory Committee

(Underlines and bolding added, with definitions of acronyms; & reformatting.)

Problem Statement: (presented by the State of Alaska but not included in the draft Council motion)

Share allocations to harvesters and processors under the BSAI crab rationalization program were intended to increase efficiencies and provide economic stability in both the harvesting and processing sectors. Recognizing that processor quota shares (PQS) reduce market competition for deliveries subject to share match requirements, the Council adopted B share IFQ (individual fishing quota) to provide some degree of competition, encourage processors to pursue market opportunities for their products, and possibly facilitate processor entry. The Council included a system for binding arbitration in the program to resolve price disputes for deliveries subject to share match requirements.

The Council has heard many concerns about the BSAI crab rationalization program suggesting the proportion of B shares is not adequate to meet the Council's intended purpose for those shares and, thus, towards furthering the goals of the program.

Information to date has not shown that the 90/10 split has promoted:

- 1) Competitive negotiated deliveries, or
- 2) Unserved and underserved markets, or
- 3) Processor entry;

There is no indication that the current A share/B share split is sufficient to promote all three.

The Council has also heard concerns over the complexity of the program, and also about the uncertainties and costs associated with share matching and binding arbitration. An increase in B shares might help resolve these issues, though the scope and magnitude of expected effects of changes from the status quo are unknown. **The optimal A share/B share split has not been analytically determined,** nor was a clear analytical evaluation for the original 90/10 split ever presented. Further, the appropriateness of various split levels may vary between fisheries and as TAC (total allowable catch) levels rise and fall. These aspects have not been analyzed.

There are several data issues, as well, that should be evaluated. For example, there may be a need for accurate data on final ex-vessel price for each share type to harvesters and first wholesale revenues for processors.

Submitted to the NPFMC on Saturday, October 6, 2007, 1440 hrs.

By: Mr. Denby Lloyd, Commissioner, Alaska Department of Fish & Game

Draft North Pacific Fishery Management Council Motion

BSAI Crab Rationalization Program — October 11, 2007

(Underlines and bolding added, with definitions of acronyms; & reformatting.)

C-3(b) - Analysis of the A share/B share split and continuation of the Crab Advisory Committee

The Council requests staff prepare an analysis for review at the October 2008 meeting examining the **effects of a change in the A share/B share split on the distribution of benefits between harvesters and processors** and on the role or necessity of binding arbitration in harvester and processor negotiations.

Further, the analysis should include a discussion of **expected effects of such a change on the distribution of landings among communities and expected effects on crew.**

Analysis should be provided for the status quo 90/10 split, 80/20, 70/30, 50/50, and 0/100 separately for each fishery.

Additionally analysis should include an option to achieve each of these levels through incremental shifts over time (e.g., 5 percent per year for a shift to 80/20 and 10 percent per year for each of the other split levels).

Additional analysis should include a one-pie IFQ allocation to vessel owners, processors, and skippers and crewmembers based upon each sector's investments and participation in the fishery.

A discussion should be included on the effect of shifts as the annual TAC levels rise and fall in each fishery (for example, having the proportion of B shares increase as TAC decreases).

Crab Committee Tasks:

The Council asks the Crab Advisory Committee to continue their work, with a focus on programmatic issues and effects of policy decisions related to the BSAI crab rationalization program.

The committee shall be reformed with **the addition of 4 community members and two crew representatives appointed by the Council Chairman,** since communities and crew are vital components within the crab rationalization program.

The newly formed committee shall also be tasked with discussing potential solutions to concerns that may arise from any adjustments to the A share/B share split.

These could include issues such as

- 1) **potential compensation to processors from harvesters for lost economic opportunity from a shift in market power,**
- 2) potential changes in landing distribution,
- 3) the remaining need and necessary changes to the binding arbitration program,
- 4) use and effectiveness of regional landing requirements to protect communities, and
- 5) **respective impacts on crew.**

In addition, the committee shall make recommendations on how best to provide for economic data needs.

The Crab Advisory Committee shall provide a **report to the Council at the February 2008 meeting** indicating its progress on this assignment.

The crab advisory committee is asked to **develop recommendations for a protocol, including an audit process, to obtain timely information about ex vessel price, by share type and region, and first wholesale price.**

Committee recommendations for improving ex vessel and wholesale price information should be prioritized by the committee so that the data becomes available to inform the Council's ongoing analytical process.

Council Staff Tasks:

The Council elected to **postpone a discussion of the draft statement of purpose and need until the December 2007 meeting**. The Council requested staff to prepare a discussion of issues and concerns raised in deliberations and public testimony that could be used to further develop the statement of purpose and need.

The Council directed staff to **prepare analyses of regulatory recommendations** of the crab advisory committee, including amendments to address:

- the requirement of market reports and non-binding price formulas for fisheries unlikely to open
- the timeline for the market report and non-binding formula for golden king crab fisheries (which does not allow for use of data from the most recent fisheries)
- staleness of market reports
- **Immunity of arbitrators, arbitration organizations, market analysts, and third party data providers.**

C-3(c) – Initial review of C share exemption from 90/10 A share/B share split

The Council directed staff to **release the analysis of the exemption of C shares from the 90/10 A share/B share split and all processor share and regional landing requirements for final review and Council action at the December 2007 meeting.**

C-3(d) – Initial review of exemption of custom processing from processor share cap

The Council directed staff to release the analysis of the exemption of custom processing from processor share use caps for final review and Council action at the December 2007 meeting with the following changes:

- remove tables 11 and 12 (showing ex vessel payments at the time of landing)
- revise the last sentence of the statement of purpose and need to read "...exempting shares in the community of origin from..."
- add "home rule cities" to option 2 under "locations qualified for the exemption"
- in the Western Aleutian Islands golden king crab fishery include suboptions to:
 - exempt only West designated shares
 - exempt all West designated and Undesignated shares processed in the West region
- revise option 2 under "Provisions to protect interests of the community of origin" to read "In the event that processing shares currently or formerly subject to a right of first refusal..."

C-3(e) – Initial review of provision for post-delivery transfer

The Council directed staff to release the analysis of post-delivery transfers in the crab fisheries for final review and Council action at the December 2007 meeting with the following changes:

- Under “Limits on the number of post-delivery transfers” include a provision that “No person shall be permitted to begin a fishing trip, unless the person holds unused IFQ” in Alternatives 2 and 3
- Under “Limits on the number of post-delivery transfers” change from a limit on the number of transfers of a “species” to a limit on the number of transfers of an “allocation”.
- Revise purpose and need statement by
 - removing the word “inadvertent” from the last and second to last sentence and
 - adding the following sentence, immediately before the last sentence, “The inability to address overages also impedes flexibility in attempting to optimally harvest IFQ.”

The **Council also identified Alternative 2** (with sub option 2, which require all post-delivery transfers to be completed by the end of the crab fishing year (June 30th) and no inter-cooperative requirement) **as its preliminary preferred alternative.**