

TO: MULTISPECIES CAPACITY REDUCTION COMMITTEE
FROM: CHRIS MEANEY
SUBJECT: JULY 27, 2006 MEETING SUMMARY
DATE: AUGUST 1, 2006

Attendees: Vito Giacalone, Bob Lane, Maggie Raymond, John Pappalardo, Barbara Stevenson, Greg DiDominico (via a conference call), David Borden, Chad Demarest, Chris Meaney and Jackie O'Dell

- 1) The minutes from the May 12, 2006 meeting were neither submitted nor approved. These minutes will be submitted for approval at the Ctte's next meeting. Additionally, the meeting minutes from the April 24th meeting have been submitted but are not yet approved.
- 2) David and Chris began the meeting with a brief discussion of the ten public meetings completed in early July. In addition to their individual thoughts on the meetings, Chris discussed a document he prepared which summarizes the primary feedback items from the ten meetings. The Ctte was encouraged by the feedback from attendees, though concern was expressed regarding the overall level of participation at the meetings (roughly 20% of permit holders attended). The Ctte discussed the importance of informed permit holders throughout the proposed buyout process, and they remain committed to increasing participation.
- 3) Technical Issues
 - a) Chad briefed the Ctte on the supplemental technical analysis documents provided to aid in decision making. The primary intent of these documents was to understand the implications of the buyout--what its benefits and costs may be and how it may change both the groundfish fishery and fisheries intrinsically linked to it.
 - b) To summarize the analysis documents, four key questions must be answered to model a fishing capacity buyout under a reverse-auction:
 - i) How do we determine capacity?
 - ii) Who is likely to bid?
 - iii) How much will they bid?
 - iv) How much money is available to fund the buyout?

Note: the answers provided to these four questions may be found in the supplemental documents provided to the Ctte.
 - c) The final analyses provided estimates of the amount of capacity removed under each of the three Alternatives, with and without a Catch History Multiplier. The analysis showed that the cost of removing capacity varied with the number of bids submitted--the more bids that are submitted, the more capacity can be removed for a fixed amount of money. Additional metrics were also tracked in the analysis, including: the number of groundfish

permits removed, the number of A-DAS, active A-DAS, latent DAS, and leased DAS removed, and the pounds of groundfish permit history expected to be retired.

- d) The analysis showed that Alternative 1 removed more capacity for a given amount of money than Alternative 3 and Alternative 2, which was shown to be (predictably) the most expensive option for capacity removal. Alternatives 1 and 3 appeared likely to achieve the 30% minimum capacity removal threshold specified by the Ctte, but Alternative 2 seemed to run the risk, at low numbers of bids received, of not achieving this threshold.
- e) The Catch History Multiplier was shown to not raise the total cost of the buyout (measured in terms of foregone capacity—capacity that could have been purchased otherwise), but it appeared to change the composition of the permits that were retired by favoring those more actively used (measured in terms of the active DAS and permit history associated with those permits).
- f) The impact of effort shifting into other fisheries post-buyout was a topic of intense discussion throughout the public meetings. In an effort to address this, an analysis of the percentage-of-total revenues derived from groundfish and the total groundfish revenues from permits likely to be bought out was conducted under both Alternative 1 and Alternative 3 scenarios. The analysis showed that, when only groundfish permits were retired and all other permits remained with the vessels, Alternative 1 appeared to target vessels that derived a bit less than half of their total revenues from groundfish. Under an Alternative 3 scenario, vessels retiring only their groundfish permits derived in the neighborhood of 10-15% of their total revenues from groundfish. The implication behind these numbers is that vessels with retired groundfish permits under an Alternative 1 scenario may have more income to “make up” than those under an Alternative 3 scenario. Because all federal permits are retired under Alternative 2, a similar analysis was not conducted for that Alternative. However, staff noted that Alternative 2 results in a large number of permit holders left with a boat, no federal permits, and a potential large sum of cash...a situation that may result in buyout participants buying their way in to whatever fisheries they can obtain permits for.

4) Discussion Items

a) Capacity Formula

The Ctte decided to keep the capacity formula as is for the purpose of discussion on the document.

b) Selection of a Capacity Reduction Alternative

The Ctte debated a preferred alternative with varying opinions on which Alternative/Alternatives would be best for the groundfish industry and which ones have the greatest likelihood of endorsement at higher levels. After intense debate, the issue was tabled until later in the afternoon. When a preferred alternative was

revisited, it was decided that further analysis was needed on the cost of the federal allocation portion of the buyout (for other fishery permits under Alternative 2 and Alternative 3). Further analysis was also requested on the expansion of years in determining the threshold under Alternative 3—the Ctte requested a comparison of results when using 1996–2001 and 2000–2006. Note that the Ctte decided that the years used in the current analysis, 2003–2005, are no longer part of Alternative 3.

The Ctte decided that additional time was needed, both to get the results of that analysis and to review the current technical analysis documents. In a straw vote, two Ctte members favored Alternative 1, with both amenable to Alternative 3 as well; two members favored Alternative 2, with one of the two amenable to Alternative 3; and two Ctte members favored Alternative 3. The preferred Alternative will be selected by the Ctte at the next scheduled meeting.

c) Minimum Capacity Removal

In response to comments received at the public meetings and the analysis provided, the minimum capacity to be removed was lowered from 30% to 25%.

d) Maximum Capacity Removal

Some on the Ctte indicated that the industry should remove whatever is possible for the money allocated, while others were in favor of a 50% maximum. The Ctte did agree that, should this item be included in the final prospectus, the language would need to clearly state that the amount of capacity sought for removal by the Buyout would be 25% or greater and no more than 50%.

e) Maximum Acceptable Bid

The Ctte considered setting a maximum acceptable bid, potentiality by setting a maximum buyout score, in order to prevent the industry from overpaying for capacity. The Ctte requested further analysis prior to making a decision on this. One suggestion was that, once an amount greater than the minimum was reached, bids with a high bid score would not be accepted, although a “high bid score” was not defined. Another idea was to set a maximum bid score at some multiplier of the mean bid score of those that would otherwise be accepted—that is, all bids with a corresponding bid score above some multiple of the average would not be accepted even if the available funds had not yet been spent. These and other ideas will be explored at the next Ctte meeting.

f) Vessel Size Class Removal Cap

Lengthy discussions were held on the ideas surrounding setting either a maximum amount of money allocated to capacity reduction within a particular size class, or a maximum percentage of a size class’s capacity removed. No final decision was

reached, but the will of the Ctte was tending towards not placing restrictions on capacity removal by size class. In order to resolve this issue, staff will develop two options (based on the two approaches above) for the Ctte to vote on at the next meeting.

g) Buyout Score Equation/CHM/Formula

The Ctte decided to keep the catch history multiplier as part of the buyout score equation. The supplemental analysis demonstrated that the CHM captures more active effort, and does not have a higher cost than simulations ran without it. The Ctte decided the CHM would be calculated based on the sum of a permit's top four years of groundfish landings between 1996 and 2001, and that it would be applied relative to vessels in each of the four size classes.

The final Catch History Multiplier formula now looks like this:

SIZE CLASS 1 (0 – 29 ft):

| CHM | LANDING HISTORY RANGE <i>(best four of six years, summed - groundfish only)</i> |
|------------|---|
| 1.0 | 0 – 19,050 lbs |
| 1.1 | 19,016 – 33,550 lbs |
| 1.2 | 33,551 – 62,650 lbs |
| 1.3 | 62,651 + lbs |

SIZE CLASS 2 (30 – 49 ft):

| CHM | LANDING HISTORY RANGE <i>(best four of six years, summed - groundfish only)</i> |
|------------|---|
| 1.0 | 0 – 21,950 lbs |
| 1.1 | 21,950 – 72,950 lbs |
| 1.2 | 72,951 – 196,700 lbs |
| 1.3 | 196,701 + lbs |

SIZE CLASS 3 (50 – 74 ft):

| CHM | LANDING HISTORY RANGE <i>(best four of six years, summed - groundfish only)</i> |
|------------|---|
| 1.0 | 0 – 68,100 lbs |
| 1.1 | 68,101 – 224,400 lbs |
| 1.2 | 224,401 – 495,200 lbs |
| 1.3 | 495,201+ lbs |

SIZE CLASS 4 (75 + ft):

| CHM | LANDING HISTORY RANGE <i>(best four of six years, summed - groundfish only)</i> |
|------------|---|
| 1.0 | 0 – 138,600 lbs |
| 1.1 | 138,601 – 516,650 lbs |
| 1.2 | 516,651 – 1,161,250 lbs |
| 1.3 | 1,161,251 + lbs |

h) Non-groundfish Permits

a. *Open access permits and associated permit history*

The Ctte suggested that staff craft language allowing people to keep their associated open access history. The Ctte realizes that, while open access permits are by definition re-acquirable, individuals may submit lower bids, or may be more inclined to submit a bid at all, if they are allowed to keep the histories associated with their open access permits. The Ctte indicated that the best way to address this issue would be to allow permit holders to keep their open access permits (and associated histories) even if the final alternative selected would require them to surrender their limited access permits.

Additionally, the Ctte sought clarification as to whether or not revenues from open access permits will figure into the 25% threshold to surrender all permits under Alternative 3. They do.

b. *Cap/multiplier for the payment of non-groundfish permits*

This issue generated substantial discussion and ultimately brought the debate back to the selection of a preferred Alternative. The Ctte requested further analysis using varying multipliers (e.g. 1.3, 1.5, 2, 2.5 etc.). The Ctte was concerned that the advantages of this additional payout may create a “buyout for the mid-Atlantic.” The other side of the argument was that if there were no additional allocations of money from Congress to buy out these other permits, then permit holders would roll the value of the other permits into their bid, effectively transferring the cost of capacity reduction in these fisheries to the groundfish industry. The issue is to be taken up again at the next Ctte meeting.

i) Options for Disposition of Vessels

The Ctte voted in favor of Option 2--Restricted future use, including both the voluntary scrapping program and scrapping voucher program. This section will not be finalized until the language regarding the retention of open access permits is finalized. The Ctte also noted their desire to include language preventing the use of any vessels retired via this buyout for artificial reefs.

j) C-DAS

a. *Payment*

The Ctte decided the payment for all C-DAS will be 100\$/C-DAS. The Ctte also clarified that anyone with C-DAS associated with their permit can sell those days, even if they possess A and B DAS and chose not to submit a bid.

b. *Language*

The Ctte indicated that they intend to recommend to the NEFMC that the Council prohibit C-DAS from reentering the fishery until the loan is paid off. In addition, the Ctte intends to recommend that while drafting enabling legislation, Congress not permit the reintroduction of C-DAS into the groundfish fishery until the loan is repaid.

k) Referenda

a. *Minimum return vote*

The Ctte decided there should be no specified minimum number of returned votes.

b. *First referendum mailing*

This issue will be revisited at the next scheduled meeting when other items have been finalized. It was clarified that the intent of the first referendum is to gauge permit holder's level of support for the Buyout, with the primary question being along the lines of "given what we have presented (in the mailing package), should the Ctte begin to actively seek Congressional support for authorizing the buyout program?" Additional questions may be asked, such as "would your support for the buyout change if options for (insert issue here—e.g., IRA rollover of buyout pay outs) were changed?"

Ctte members indicated they are in favor of implementing a hybrid electronic/paper vote, administered through a third-party company with experience in such matters.

c. *Final referendum*

The Ctte discussed two options regarding the implementation of the final vote. One of these two will be decided upon at the next Ctte meeting:

1. Only those who will remain in the groundfish fishery after the Buyout will have their votes counted in the final referendum.
2. All permit holders' votes will count in the final referendum.

In both instances, the Ctte signaled their preference for voting *prior to* the notification of whether or not bids were accepted. That is to say, all bids would have been received, ranked according to bid score, and the outcomes of the

buyout would be tabulated (including percentage of capacity removed, number of permits removed, the amount of history removed, etc.), but bidders would not be notified if their bid was accepted prior to the final vote.

l) Loan Repayment

The Ctte decided to stay with the thirty year repayment period. The Ctte requested staff research the likelihood that the loan be interest-free.

m) Payments to Permit Holders

The Ctte recommends that permit holders be given the option to have payouts deposited into qualifying retirement accounts and/or have capital construction funds deposited into such accounts. It is noted however that there should not be a mandate to remove capital construction fund programs.

3) Other Items

- a. The Ctte sought clarification that landings history is retired (i.e. disappears) when a permit holder retires a groundfish permit to the Buyout. This will be reflected in the Prospectus document.
- b. The next Ctte meeting is scheduled for Monday, September 11 at 10 a.m. in the Northeast Seafood Coalition offices.