

Fishing Capacity Buyout Prospectus

Executive Summary

The oft-quoted axiom “too many boats chasing too few fish” has proved somewhat true for New England groundfish fisherman over the past fifteen years. In a long, drawn-out attempt to rebuild stocks and end overfishing, the groundfish fishery has endured years, if not decades, of increasing regulation and decreasing profits. Average available fishing days have dropped from approx 116 in 1996 to just 46 (Category ‘A’ Days-at-Sea) in 2006. Regulatory restrictions including area closures, trip limits and, more recently, differential Days-at-Sea counting have made using these allocated fishing days increasingly difficult.

There is no guarantee that things will improve in the short term. Despite increases in the health of several key groundfish stocks, revenues from groundfish fishing have declined roughly 30% between 2001 and 2005 (NEFMC 2006). Amendment 13 to the groundfish management plan contains default measures for 2009 that, if implemented, will further reduce Days-at-Sea allocations as well as potentially trigger a new round of trip limits and area closures. Eventually the stocks are predicted to rebuild, and long-term future landings are predicted to be significantly higher than they are today. But again, there are no guarantees that these landings will be realized.

A groundfish fishing capacity reduction program is being developed through collaborative efforts by members of the groundfish fishing industry, with coordination provided by the State of Massachusetts. This is an industry-led attempt to improve the financial future of the groundfish fishery while allowing those who would like to exit the fishery a legitimate, sensible way of doing so. Reducing capacity through an industry-funded buyout will have long-term benefits to the resource and the fishery. Short-term benefits may be felt if the buyout reduces the number of used Days-at-Sea below current levels. If this were to happen, pressure on the resource may be alleviated and stocks may rebuild faster. Regulations could potentially be relaxed sooner than they could be without the buyout. But there are no guarantees. Ultimately, each permit holder will have to judge for them self what the future of the fishery will look like, and what they expect their place in it to be.

Objectives

The program has the following four objectives:

1. *To permanently reduce fishing capacity in the northeast multispecies fishery*
2. *To provide those wishing to leave the groundfish fishery with a legitimate, financially sensible way of doing so*
3. *To preserve the essential character of the New England groundfish fleet by not targeting any one gear type, size class or geography for buyout*
4. *To ensure that the benefits to those remaining in the industry justify the costs of the loan*

Authorized Participants

All vessels holding a valid, current Northeast Multispecies Limited Access fishing permit with allocated Category A, B or C Days-at-Sea may participate in this program.

Cost of capacity reduction

To reduce capacity, the federal government will guarantee a loan of between \$75 and \$150 million to the groundfish industry. The money will be used to purchase groundfish fishing capacity, as measured by a combination of permitted fishery access, vessel length and horsepower. Note that only groundfish fishing capacity will be bought out with this loan. Options for retiring other fishery permits are presented, but they do not use groundfish industry funds.

Loan repayment

To repay the loan, a fee of approximately three percent will be assessed on all landings from trips made on multispecies Days-at-Sea. The loan is expected to be repaid in full in 30 years.

Minimum capacity reduction

A minimum of 30% of the groundfish fleet's estimated capacity must be removed. If this amount is not met, the buyout program will not proceed.

Method of capacity reduction

Category 'A' and 'B' Days-at-Sea permit holders: All category 'A' and 'B' Days-at-Sea permit holders will be allowed to submit a bid equal to the amount that they would accept for the retirement of their federal fisheries permit or permits. This proposal contains several options detailing exactly what the permit holders will be expected to retire with the acceptance of their bids. Additional lump sum payouts are available for category 'C' Days-at-Sea and for voluntarily electing to scrap vessels.

Category 'C' Days-at-Sea (only) permit holders: All permit holders allocated only category 'C' Days-at-Sea will be allowed to receive a lump sum payment in the amount of \$150 per category 'C' Day-at-Sea held.

Referenda and order of events

Permit holders will have two opportunities to formally vote on the capacity reduction program. The first referendum will gauge industry interest and allow participants to provide feedback on the different options within the Buyout Prospectus.

If the industry is generally supportive, the U. S. Congress will be asked to pass legislation authorizing the loan and any other funding required by the program. This legislation will spell out the sequence of events for the remainder of the program, and will authorize the National Oceanic and Atmospheric Administration to issue a letter to all permit holders soliciting binding bids for the surrender of their fisheries permits (as outlined in the Prospectus document).

After bids have been received and ranked, and the amount of capacity to be removed from the fishery has been estimated (and assuming that the minimum amount of capacity was retired), a second, binding referendum will be administered by NOAA to determine if the program will go through. In order for the program to proceed, more than 50% of the votes received must be in favor of the capacity reduction program.

Counting votes

For each category 'A' Day-at-Sea held, the permit holder will receive four votes. For each category 'B' Day-at-Sea held, the permit holder will receive two votes. For each category 'C' Day-at-Sea held, the permit holder will receive one vote.

Alternatives for reducing capacity

The document contains three options for what must be retired if a bid is accepted. Only one of these three options will be part of the final proposed Buyout Prospectus.

Alternative 1: Surrender of groundfish permits only, with unlimited future use for the vessel attached to that groundfish permit.

Alternative 2: Threshold for determining what must be retired. If less than 25% of a permit holder's reported gross revenue between 2003 and 2005 was derived from trips made on groundfish Days-at-Sea, or if less than 15 category 'A' Days-at-Sea are allocated to that permit, only the permit holder's groundfish permit must be surrendered. If more than 25% of their reported gross revenues were derived from trips made on groundfish Days-at-Sea, all federal and state fishing permits must be surrendered. See *Disposition of non-groundfish federal fisheries permits* and *Options for the disposition of vessels*, below.

Alternative 3: Surrender of all federal and state fisheries permits. See *Disposition of non-groundfish federal fisheries permits* and *Options for the disposition of vessels*, below.

Disposition of non-groundfish federal fisheries permits

If either Alternative 2 or Alternative 3 are chosen, some or all permit holders with accepted bids will be required to surrender all of their federal fisheries permits, a lump-sum payout will be issued for the value of these permits. This payout will be in addition to the amount bid (and paid) as part of the groundfish fishery capacity buyout. The amount of the payout will be equal to one and a half times the documented average annual revenues from 2003-2005 derived from any or all of the American lobster, black sea bass, monkfish, scup, squid/mackerel/butterfish, and summer flounder fisheries, depending on which permits are held on the vessel in question.

Options for the disposition of vessels

If either Alternative 2 or Alternative 3 are chosen, some or all permit holders with accepted bids will be required to surrender all of their federal fisheries permits. Two options are presented for determining what will happen to the vessels when a bid is accepted. Only one of these two options will be part of the final proposed Buyout Prospectus.

Disposition of Vessels Option 1: Permit holders would have no restrictions on what activities their permitted vessel may engage in, including re-acquiring fisheries permits in any federal, state or international fishery.

Disposition of Vessels Option 2: Permitted holders would have three choices for their permitted vessels:

- (1) Restricted to non-fishing uses
- (2) Participate in a scrapping voucher program, where they sell their vessel to another permit holder in a federally permitted fishery and that permit holder scraps their vessel.
- (3) Participate in the voluntary vessel scrapping program, where permit holders are issued a lump sum payout upon proof of scrapping for an amount equal to \$500 per registered foot of vessel length.

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Conclusion

The proposed capacity reduction program is an opportunity that allows the industry to invest in its own future. Feedback from the industry and interested parties on the material presented in the Prospectus will help create a program that benefits the groundfish resource, the groundfish fishery, and the fishing communities of New England. Please realize that this is a draft proposal, which is being used to stimulate discussion on the issue. The specifics of the draft may change based on comments received at the public meetings. Everyone is encouraged to refer frequently to the web site, www.nebuyout.org, to see the most recent version of document as well as any updates on meeting announcements, etc.