

MULTISPECIES CAPACITY REDUCTION COMMITTEE MEETING

THURSDAY, JULY 27, 2006

NESC OFFICE, GLOUCESTER MA

AGENDA

- A. Comment period
- B. Technical issues update
 - 1. Moratorium permits
 - 2. Estimating Capacity
 - 3. Other
- C. Discussion items
 - 1. Capacity reduction alternative selection
 - 2. Minimum capacity removal
 - 3. Maximum capacity removal
 - 4. Maximum acceptable bid
 - 5. Buyout score equation/CHM/Formula selection
 - 6. Other permits
 - 7. Vessel disposition option selection
 - 8. C-DAS program
 - 9. Referenda
 - 10. Loan repayment schedule
 - 11. Payments to permit holders
- D. Timeline

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1 Agenda Item B: Technical Updates

1.1 *Moratorium Table*

See attached

1.2 *Estimating Capacity*

During the public information session, we changed the formula for estimating capacity. The capacity unit formula was changed because the first set of numbers created a circumstance where people had an inflated idea of their capacity and were incorrectly (kind of) valuing their business on it, resulting in inflated bids.

2nd Buyout Score Equation:

Bid

capacity units * catch history multiplier * A & B DAS

NOTE: Capacity units = $-29 + (\text{VHP} * 1.64) + (\text{LEN} * 18.09)$

NOTE: Catch History Multiplier - Dates Selected

The committee chose to use the average of the top four of five years of total landings of regulated groundfish from 1996-2001 as the basis for determining the CHM in the capacity estimation formula. There are six years between 1996 and 2001, so the CHM was calculated using the top four of the six years. Vessel length classes (four) were used, as per Committee discussion by email.

1.3 *Other*

2 Agenda Item C: Discussion Items

2.1 Capacity reduction alternative

The following is provided to assist the Committee in selecting a preferred alternative:

Alternative 1: Surrender of Multispecies permits only

Alternative 2: Surrender of Multispecies permits plus all federal permits

Alternative 3: If <25% revenues come from trips on groundfish DAS, only a Multispecies permit would be surrendered
If >25% revenues come from trips made on groundfish DAS, all federal permits must be surrendered

Impacts of Alternative 1:

- Based on the analysis one would expect the following effort shift (refer to technical analysis update) There may be significant effort shift if this alternative is selected. This is as much a political issue as it is anything else. In order for the Buyout to pass muster in the mid-Atlantic as well as with Congress, this is not a viable option.

Impacts of Alternative 2:

- Based on the analysis the level of effort shift is ____ (refer to the technical analysis update - one would expect the least amount of effort shift). Politically speaking this may be the only way to implement the Buyout.

Impacts of Alternative 3:

- Based on the analysis this may allow for some effort shift (refer to the technical analysis update) If the committee deems it necessary to minimize this effort shift, the committee could adjust the 25% threshold.

Recommendation

The staff recommends Alternative 2 as the preferred Alternative. If Congress fails to adequately fund Alternative 2, then the committee may consider a version of Alternative 3.

2.2 Minimum capacity removal

The committee has decided that a minimum percent of capacity removal is necessary. Without a minimum threshold, it may be possible to pay a lot of money for not much effort. The problem thus far has been determining what the 30% would actually do to the number of DAS, how many latent versus active permits would be bought, and what implications this would have on the fleet. Preliminary analysis indicates that if more than 275 bids are submitted, the 30%

threshold is likely to be achieved. However, if fewer than 275 bids are submitted, it is unlikely that the buyout would reduce capacity by 30%. Further analysis will be provided.

Recommendation

Based on the analysis, staff recommends that we maintain the 30% minimum capacity threshold.

2.3 Maximum capacity removal

It has been suggested that the committee consider a maximum amount of capacity to be reduced. In addition, the committee may want to consider a maximum amount of capacity to be removed per vessel size class. Initial analysis indicates that the buyout will approach 50% capacity reduction only if more than 750 bids are placed and/or if the bids come in much lower than expected. However, if either of these were to happen, a 50% cap on capacity removal would achieve the objectives of this Committee (to permanently reduce capacity) while saving the industry money.

Pros

- May drive the bidding incentive, i.e. permit holders may be willing to bid low if there is a maximum.
- May decrease the degree to which the Buyout may affect shore-side infrastructure.

Cons

- A cap may prevent someone who would like to exit the fishery from being bought out.

Recommendation

Staff recommends that a capacity reduction maximum be set at 50%.

2.4 Maximum acceptable bid

Is there a need for a maximum allowable dollar figure bid or buyout score? This would allow the industry to disqualify inflated bids that would unnecessarily raise the repayment schedule.

Pros

- Prevent the industry from overpaying for capacity.
- May prevent the industry from going unnecessarily into debt.

Cons

- With a maximum acceptable bid, some of the larger capacity boats potentially may not be bought out.

Recommendation

The committee should set a maximum acceptable bid. The best way to do this would be to establish a maximum bid ratio (buyout score). The suggested maximum buyout score should be 3.0.

2.5 Vessel size class removal cap

At the Portland meeting the idea of establishing a maximum % of funds available to retire permits from any particular size class or geography was proposed.

Pros

- Reduce impacts on infrastructure in some ports.
- May prevent complete removal of a particular segment of the industry, if such a segment is vulnerable under current regulations.
- Upholds the Committee's objective to maintain the character of the fleet, though this may require a bit of rewording.

Cons

- Raises the cost of purchasing capacity by potentially eliminating more cost-effective capacity in favor of less cost-effective capacity from a different size class.
- May prevent retirement of permits for those who would otherwise have had bids accepted.

Recommendation

If the committee decides that this is a viable concern, they should set a maximum cap (percentage) on removals from any of the four vessel length classes. The committee should set this percentage higher rather than lower so that industry does not miss out on potential capacity that could be removed.

2.6 Buyout score equation - catch history multiplier

Preliminary analysis reveals that the CHM is not likely to cost the industry money (forgone capacity), while targeting active effort (active DAS and catch history) at a disproportionately higher rate. If this is considered a "good" thing, than the CHM may not have a down-side.

Further analysis will be provided for this decision

Recommendation

None - we feel it is best to let the committee's discussion lead to the answer, however if the CHM is included in the capacity estimation equation, it is recommended that in order to determine the CHM, the high and low years be

removed, and the average of the remaining four years be used to determine the CHM.

2.7 Other Permits

Arising from the public meetings were issues pertaining to the surrender of non-groundfish permits. The factors in need of attention are: history associated with open access permits, dates, and the 1.5 multiplier.

2.7.1 History

Does the committee want to develop language that will allow people to keep their open access history? (i.e. history attached to an open access bluefin permit)

Recommendation

It is recommended that the industry pay for limited access permits and let individuals either keep their open access permits, or allow individuals to surrender their open access permits but let them keep their history.

2.7.2 Consistent dates for CHM and other fishery permits

The CHM used 1996 to 2001, while, in order to determine the size of the payment for non-groundfish permits, documented average annual revenues from landings on non-groundfish species from 2003-2005 was selected. Some individuals at the public meetings indicated these dates should be consistent with those selected for estimating the CHM.

Recommendation

No action.

2.7.3 Multiplier for payout

The 1.5 multiplier was included to entice those with other permits to get on board with the Buyout, however there were claims that the multiplier is too low and thus prohibitive for people who may otherwise wish to participate.

Further analysis will be provided for this decision.

2.8 Options for vessel disposition

Further analysis will be provided for this decision.

Recommendation

Staff recommends Option 2 – Restricted Future Use, the voluntary scrapping program and the vessel voucher program. Vessel scrapping would pay \$500 per foot of registered length upon proof of scrapping.

2.9 C-DAS Program

2.9.1 C-DAS cap

Does the Committee want to stick with the C-DAS program as outlined?

- Do we want to pay for C-DAS?
- Is the \$5,706,750 million cap too much?
- Is \$150 per C DAS the right amount?

Here is some information on the distribution of C-DAS (only) totals (not permits, but total numbers held):

C DAS by Area			Cost to buy out all C-DAS held by C- DAS only permits	
NH and ME	5,614	15%	\$100	\$3,804,500
MA	14,234	37%	\$125	\$4,755,625
RI south	18,197	48%	\$150	\$5,706,750
TOTAL	38,045	100%	\$175	\$6,657,875
			\$200	\$7,609,000
			Total cost to buyout	

Recommendation

Staff recommends the committee leave the program as proposed.

2.9.2 Surrender of other permits

Allowing for the surrender of other permits held by C-DAS permit holders was raised at a public meeting.

Pro

- More holistic approach to reducing capacity
- If you can get it, why not?

Cons

- Additional Cost
- Beyond the scope of this Buyout

Recommendation

The committee should consider this option. Potential issues may arise when the industry asks Congress for this extra allocation. If problems do surface, this aspect of the Buyout would be eliminated first.

2.9.3 C-DAS prevention language

The committee needs to take a final position on the future of C-DAS and needs to decide upon which avenue is most appropriate for preventing the reintroduction of C-DAS.

Pros

- Including specific language means the industry is assured that there will not be future effort creep, otherwise the industry would be dependent on the Council to make sure this does not happen.

Cons

- Including such language alienates those that worked to get C-DAS for fishermen, and may distance important political actors.

Recommendation

The staff recommends that the committee discuss this and clarify prior to the first referendum if the committee will go through the Council process or through enabling legislation.

2.10 Referenda

2.10.1 Minimum return vote

Recommendation

There should be a minimum return vote for each referendum of greater than 50% of permit holders. If the minimum is not returned the program will not go forward.

2.10.2 First Referendum

The committee needs to finalize the structure of the first referendum. The mailing for the first referendum is scheduled for September 1.

Recommendation

Staff recommends ballots are mailed to permit holders with the preferred alternative and option for the disposition of vessels, and indicate that votes will be counted using the 4:2:1 ratio. A Buyout executive summary and a letter clarifying the committee's decision process will also be sent. It will be made clear that the purpose of the vote is not for implementation of the Buyout; rather it serves to allow the committee to go ahead and work with political actors and Congress to take the necessary steps to finalize a Buyout.

Issues:

We will need to meet with state directors to figure out what to do about state permits

Design thoughts:

- If possible the vote should be electronic
- Permit holders should have a code number that only one person knows so there are no accusations of cheating by staff.
- If done manually there should be a neutral observer.

2.10.3 Final Referendum

The following issues arose from the public meetings: Does the committee want to only count votes from those who will remain in the fishery, or should the committee accept and count votes from both those with accepted bids and those who remain?

Issues:

- Those who are going to remain will be paying the cost of the loan and incurring the burden.
- Perception of equality in the buyout design/process.

Recommendation

It is recommended that all permit holders are given the chance to vote in the second referendum, and votes be allocated on the 4:2:1 ratio used in the first referendum. In addition, there should be a clause for multiple-permit owners submitting individual bids with a take-or-leave-them-all option.

2.11 Loan repayment schedule

Does the committee want to extend the life of the loan? Here is what it might look like with a 35 year payback and 40 year payback period.

Further analysis will be provided for this decision.

Recommendation

To be determined based on analysis

2.12 Payments to permit holders

At the public meetings many individual expressed that they would participate in a buyout if the payout could be placed in tax free retirement accounts and if the committee was able to prevent capital construction monies from being an unqualified withdrawal in the eyes of the IRS. This would make the overall

program far more attractive to a number of boat owners who otherwise may face severe tax consequences.

Recommendation

It is recommended that all proceeds be allowed to be deposited into qualifying retirement accounts and/or give fishermen the option to have capital construction funds deposited into a retirement fund.

These recommendations and details will need to be worked out during the congressional stage of the buyout.

3 Agenda Item C: Review of Timeline

Here is a new suggested timeline. Do we need to make adjustments?

July 27	Committee meeting
August	Develop 1 st referendum / finalize buyout prospectus draft
September 1	Target mailing date for non-binding straw poll and prospectus to permit holders
September 21	Return straw poll ballots

-----**Contingent upon industry support**-----

Fall/Winter	Fishing Capacity Buyback Prospectus final draft available Promote Program/Authorizing legislation passed
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-----**As measured from passing of authorizing legislation**-----

Month 1	Initial notice published in Federal Register
Month 3	Final notice published in Federal Register, final bid solicitation letters mailed to authorized participants
Month 5	Bidding period opens
Month 6	Bidding period closes
Month 7	Referendum ballots mailed to authorized participants, voting period opens
Month 8	Voting period closes, Payment tender notice published in Federal Register
Month 9	Accepted bidders permanently cease fishing for groundfish
Months 9-10	Buyout proceeds distributed to accepted bidders