

**TO:** MULTISPECIES CAPACITY REDUCTION COMMITTEE  
**FROM:** CHAD DEMAREST  
**SUBJECT:** MARCH 20, 2006 MEETING SUMMARY  
**DATE:** 5/15/2006  
**CC:**

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**Attendees:** Peter Kendall, Geoffrey Smith, Vito Giacalone, Jackie Odell, Carlos Raphael, Barbara Stevenson, David Borden, Chad Demarest and observer Corrado Buccheri

- (1) Minutes from the February 27<sup>th</sup>, 2006 meeting were reported but are pending approval.
- (2) The committee heard a report on the Maine Fisherman's Forum. Five Ctte members were present at the forum (David Borden, Maggie Raymond, Barbara Stevenson, Geoffrey Smith, Vito Giacalone and Jackie Odell). Attendance was moderate and interest in the concept of a buyout was high. The overall response from the audience was characterized as positive but cautious. One member of the Ctte expressed a feeling that more details would have been helpful when introducing this to the public.
- (3) The committee reviewed actions to date. Specifically, the committee discussed disposition of vessels with permits other than groundfish, vessel scrapping, catch history bonus, objectives of the buyout program, and several other topics previously addressed. This was done to re-confirm that all committee members had a similar understanding of the issues, even if no agreement was reached on several topics. See item (5) of this summary for details of discussions on some of these topics.
- (4) The committee discussed issues that may need to be brought to Mike Sturtevant (NMFS Financial Affairs Office) during the conference call. At approximately 11 AM, the Ctte contacted Mike. The specific issues brought forward were:
  - a. What is Mike's general opinion on the disposition of vessels—that is, do vessels need to be stripped of all permits, or is it permissible to strip them only of groundfish permits?

*The issue is a political one, not a legal one, but Mike's read on the political climate is that a buyout capacity reduction program must result in either the vessels involved never fishing again worldwide, or complete scrapping of the vessel. Mike noted that previous buyouts (in this case, west coast groundfish) have had a requirement that all participating vessels maintain a US flag until they are scrapped—thus ensuring that we do not export vessels and potentially contribute to world-wide overcapacity.*
  - b. Does Mike agree with his predecessor, Mike Grable, who stated that the Ctte would not want to buy boats at the end of the program—that is, that the disposition of the boats would ultimately be in the hands of the vessel owners?

*Mike agreed that the Ctte would most likely not want to buy the boats themselves.*

- c. Are there any internal guidance documents or criteria that NOAA Fisheries uses to evaluate buyout proposals?

*No. All such proposals are evaluated ad hoc and, as such, there is tremendous flexibility in the structure of a buyout.*

- d. Have there been any provisions in any previous buyout legislation that addressed IRS concerns such as the ability to roll proceeds into an IRA/401(k) or changing the requirement that C-corporation owners be taxed for both corporate and personal gains when those gains are transferred from the corporation?

*No. None of the previous proposals that Mike was aware of addressed any capital gains or other taxation issues. Furthermore, Mike did not think that such language would be politically popular.*

- e. Have other buyouts used a combination of federal and industry funds?

*Yes. The first legislatively-enacted buyout (Pacific Pollock fishery, through the American Fisheries Act) used 15 million federal dollars and ?? industry dollars.*

One Ctte member asked for information on the emerging Atlantic Coast shark buyout program, but Mike had no information on this. This buyout may be useful as an example, as it deals with the potential purchase of incidental catch shark permits, which are essentially latent effort permits, not too far off our C-DAS permits.

(5) David Borden emphasized the need for beginning a strawman document that addresses the myriad issues that the Ctte has been discussing. Such a strawman may be constructed similar to (but simpler than) an EIS, with alternatives where multiple ideas have been discussed. This would allow the Ctte and ultimately the public to evaluate options prior to producing a final document. Specific issues that were discussed for future action are detailed below. Note that the italicized portions are my opinions; they do not represent discussion by the Ctte, although they may summarize my impressions of previous Ctte discussions. Some Committee members expressed interest to have the strawman as complete as possible, without too many options.

- a. Disposition of other fishery permits held by participating vessels is an issue that appears perfect for an “alternatives” approach. While the Ctte has reached consensus on the fact that the groundfish fishery will not subsidize the retirement of permits in other fisheries, there is no consensus on how to handle these permits. Three alternatives have emerged:

- i. Buyout restricted to groundfish permit holders only. *This alternative would allow for bids and buyout purchase on groundfish DAS and permits only. There would be no consideration of the disposition of other fishery permits, although it is implicit in this that participating vessels remain free to participate in whichever fisheries they are permitted for.*
- ii. Federal funding for buyout of non-groundfish permits held by participating vessels. *This alternative would require a valuation of non-groundfish permits, and a federal earmark for funds to buy these permits. Groundfish industry funds would go toward the buy-back of groundfish permits only, but all permits would be stripped from participating vessels.*

- iii. Vito's permit freeze options. *These options have been discussed at other meetings, but essentially they involve a sunseting freeze on the use of all non-groundfish permits held by participating vessels. This would give the other fisheries time to either deal with potential capacity utilization increases in their fisheries, or not deal with such increases—however those other fisheries see fit.*

Ctte members were asked which permits were believed to have actual value to permit holders. Potentially valuable permits were identified as: loligo, illex, general category scallop (with landings), black sea bass, scup, lobster trap and non-trap, fluke, and possibly shrimp.

- b. The need to have a threshold percentage of total income that would exempt participating vessels from having to sell off all of their permits and retire their vessel. *Vessels that are active in other fisheries but part-time participants in the groundfish fishery would have little incentive to strip their groundfish permit and DAS if they were required to retire all permits and their vessels. Yet there may be very good reasons for ensuring that vessels in this situation have the ability to participate in the buyout if they so desire. To accomplish this, one idea is to exempt vessels from retiring their permits if they have demonstrated gross revenues that are predominantly from other fisheries (such as a 70/80/90% exemption threshold).*
- c. Ctte members expressed a need to provide to the Ctte and the public a general chronology, explaining what would occur, and what would be required, at each step of the buyout process.
- d. The issue of C-DAS will need thoughtful attention. Several ideas are being explored by the Ctte. They include: (1) Earmark some portion of the overall available funds (e.g. 10%) for the purchase of C days, allowing those who would like to sell theirs, but requiring that those who retain C days pay a fee to do so (that is, those who retain the right to benefit from a more profitable fishery should pay into the buyout that is contributing to that increased profitability). (2) Freeze C days until the buyout loan is paid off. (3) Address C days in some, as of yet undetermined, way via legislation. *The continuing line of reasoning on this is that A and B day holders will have no incentive to pay into a buyout if, when stocks are rebuilt, C-DAS may be re-introduced into the fishery.*
- e. The idea of a simple DAS buyout was floated, where only DAS and not permits were purchased by the industry. *Such a buyout would greatly simplify many of the issues the Ctte has been struggling with, while still potentially meeting some (if not all) of the objectives of the buyout. However, the idea generated little discussion either positive or negative. No resolution or consensus was reached on this idea.*
- f. Capacity estimation:
  - i. Several formulas have been discussed. For illustration purposes only, two are included here. Further work will go in to constructing an optimal formula for the Ctte's purposes.

1. Vito's:  $[(24 * \text{Length}) + (2.8 * \text{VHP})] * \text{DAS}$

2. Chad's:  $[(689.5) + (11.64 * \text{GTons}) + (2.91 * \text{VHP})] * \text{DAS}$

- ii. For the purposes of capacity estimation, it was determined by consensus that DAS should include both A and B days.
  - iii. There was discussion regarding the use of maximum upgradeable parameters in the capacity estimates, rather than current vessel parameters. Both options will be explored to see if either produces more desirable results.
- g. Bid evaluation processes and uses for various capacity estimation formulas were discussed. While several iterations and fine-tunings for capacity estimates were discussed, two basic ideas emerged:
- i. Include the capacity estimate formula in the bid solicitation letter, and include a non-binding (guidance) bid\_amount : capacity\_estimate ratio that is more-than-likely to be accepted. Include in the capacity\_estimate and catch history bonus factor.
  - ii. Use a ratio of bid\_amount : capacity\_estimate to evaluate bids. Starting with the lowest ratio, bids are accepted until the money runs out. The basic capacity estimate formula may be provided in the bid solicitation letter.

There was also discussion of conducting a multi-round buyout, but this was dismissed by consensus.

- h. Chad presented some data with regard to the question: Can the industry afford a buyout?
- i. Total value of groundfish vessels: To get a feel for how much capacity may be needed to be bought out, it may be interesting to try to estimate the overall value of the groundfish fleet. A very general, very poor model was constructed based on current, publicly available vessel brokerage data. The model included parameters such as AGE, LEN, VHP, GRT, hull material, A\_DAS, other moratorium permits held, etc. 25 listings were available, and they tended toward the smaller side of the groundfish fishery (while there were three boats over 80 feet available, all had relatively low horsepower—which, presumably, is why those vessels are still on the market)...the upshot here is that the model clearly did not capture the actual groundfish fishing fleet perfectly. In any case, the model estimated a total value of \$264.1 million. I believe estimated gross revenues for the groundfish fishery in 2005 are somewhere around \$75 million, which indicates that people (with vessels currently for sale) estimate their vessel's value at about 3.5 times anticipated annual revenues. Several Ctte members indicated that this estimated value is likely low by a factor of two. If that is the case, and the actual value of the fleet is \$528 million, then the fleet is valued at approximately 7 times groundfish revenues. Because these vessels derive a substantial portion of their income from non-groundfish sources, this number may not be out of line.
  - ii. Based on revenues anticipated in Am 13, with an out-year maximum groundfish fishery revenue of about \$350 million per year, a 5%-of-

revenues re-payment schedule, and a 5% interest rate, a \$100 million loan would be repaid in year 13. If you half the anticipated fishery revenue (make it \$165 million annually in the out years), the same loan under the same conditions would be repaid in year 29. These calculations do not include a discount rate—in fact, they are crude in the extreme. But they do shed some light on what the fishery can accommodate in terms of a large industry-funded buyout.

(6) Administrative issues:

- a. Schedule of meetings:
  - i. Monday, April 10 - Gloucester
  - ii. Monday, April 24 – TBD
  - iii. Monday, May 1 – TBD
  - iv. Friday, May 12 – TBD
  
- b. Other: It was noted that Chad is off the project, as of now, on May 10. While the strawman document will likely be completed by that point, there may be a need to hire additional help for running stakeholder meetings, further refining the strawman document, conducting a possible referendum, and other technical requirements. Funding options for such a person will be explored.