

MULTISPECIES CAPACITY REDUCTION PROGRAM COMMITTEE MEETING

MONDAY, SEPTEMBER 11, 2006

Agenda

- A. Review decisions made at the July 27 Meeting
- B. Technical Analysis update
- C. Discussion items
 - 1. Selection of a preferred alternative
 - 2. Non-groundfish permits
 - 1. open access language
 - 2. cap/multiplier
 - 3. Maximum capacity removal
 - 4. Maximum acceptable bid
 - 5. Vessel size class removal cap
 - 6. Finalize vessel disposition language
 - 7. C-DAS language
 - 8. First referendum structure
 - 9. Second referendum – 2 options
- D. Timeline

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1 Agenda Item B: Technical Updates

1.1 *Alternative Bundles*

See attached

2 Agenda Item C: Discussion Items

2.1 *Capacity reduction alternatives*

The following is provided to assist the Committee in selecting a preferred alternative. These alternatives apply only to those NEMS moratorium permits with allocated category 'A' Days-at-Sea. The Ctte should reference Sec 2.2.1 - open access permits - when considering the surrender of all federal fishery permits.

Alternative 1: Surrender of NEMS moratorium permits only.

Impacts of Alternative 1:

- The groundfish industry provides all funding, i.e. those that remain in the groundfish fishery post-buyout will repay the loan via a tax on landings made on a groundfish DAS. This is the least cost per unit capacity alternative.
- There may be significant effort shift if this alternative is selected, which is a political issue that could lead to early termination of the proposed Buyout. In order for the Buyout to pass muster in the mid-Atlantic as well as with Congress, this is likely not a viable option. Peter Leipzig of the Fisherman's Marketing Association, who was involved in the design of the west coast trawl fishery buyback, indicated that Congress required that all federal permits be surrendered before any funding would be allocated.
- Refer to the Alternative 1 Bundle for complete analysis.

Alternative 2: Surrender of Multispecies permits plus any other federal moratorium permits. (Permits for state waters fisheries will be revoked by the appropriate State agency – tbd after meetings with state directors)

Impacts of Alternative 2:

- Those that remain in the groundfish fishery post-buyout will repay a loan via a tax on landings made on a groundfish DAS. A separate allocation by Congress, not part of the loan to the industry, will be used to pay for other permits. Successful bidders will receive a payout in the amount of their bid. Accompanying that will be a separate payout for the surrender of their other federal permits. While strictly speaking, this alternative is the greatest cost per unit of capacity, direct comparison to the other alternatives is not necessarily accurate as the capacity for catching fish in all federal moratorium fisheries is being retired.

- It is unclear what the level of effort shift may be. One could argue that under Alternative 2 permit holders who divest themselves of everything may be looking for a way to retire or pursue another career. Conversely, it may be possible that some may take the lump sum payment and fish elsewhere, but this could be a large risk.
- Refer to the Alternative 2 Bundle for complete analysis.

Alternative 3: If less than 25% of a permit holder's reported gross revenue between 1996-2001 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, bidders are required to surrender their groundfish permit. Monkfish Category 'C' permits held by bidders are converted to Category 'A' permits. Permit holders who fall below the 25% threshold or have less than 15 'A' DAS and wish to surrender all permits may do so.

If 25% or more of their reported gross revenues between 1996-2001 was derived from trips made on groundfish Days-at-Sea, bidders are required to surrender all federal fishing permits. (Permits for state waters fisheries will be revoked by the appropriate State agency – tbd after meetings with state directors)

Impacts of Alternative 3:

- Those that remain in the groundfish fishery post-buyout will repay a loan via a tax on landings made on a groundfish DAS. A separate allocation by congress, not part of the loan to the industry, will pay for the surrender of all other permits. The cost per unit capacity of Alternative 3 is greater than Alternative 1 but less than Alternative 2.
- This alternative may allow for some effort shift; however it may not result in as much as Alternative 2. Those who receive most of their revenues from other fisheries presumably would not contribute a substantial amount of effort into other fisheries.
- Refer to the Alternative 3 Bundle for complete analysis

NOTE: Staff recommends that should the Ctte desire to bring Alternative 3 to Congress, they consider drafting language that specifies that BTT permit holders may surrender all permits if they wish.

Recommendation

The staff recommends Alternative 2 as the preferred alternative. Congress apparently mandated this in the last West Coast Groundfish Buyback. The perception of effort shifting into other fisheries as a result of either Alternatives 1 or 3 will make the Buyout a difficult sell in the Mid-Atlantic regions, and could face serious resistance in Congress. While it is possible to make an argument

for a different Alternative (such as Alt 3) to Congress in the hopes of getting an outcome different from what they ended up with on the West Coast, it is probably more beneficial in the long term to recognize the politics involved at the outset, and begin to establish credibility with our constituents (groundfish permit holders) and Congressional representatives based on an Alternative that we believe will be acceptable across the board.

2.2 Non-groundfish permits

The Ctte needs to finalize a decision on open access permit language and decide if the 1.5 multiplier is appropriate for calculating the payment for the surrender of non-groundfish federal moratorium permits.

2.2.1 Open Access Permits

At the July 27th meeting 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), and suggested that staff craft language for Ctte approval.

Recommendation

Staff recommends the Ctte chose between either retiring the open access permit but retaining the associated history, or retaining the open access permit. Language for this may look like:

Permit histories associated with open-access permits (at the time the vessel's permit is surrendered) could be retained by the vessel's ownership for transfer to an existing platform within one year, contingent on that platform obtaining the appropriate permits.

OR

Permit holders may retain their open access permits and history.

2.2.2 Multiplier for payout

The 1.5 multiplier was included to broaden the appeal of the Buyout to those who have limited access NEMS permits but fish primarily in other fisheries. At the July 27th meeting, Ctte members requested further analysis from the staff on how increasing this multiplier would affect the number of bids. The Ctte also wanted to know how much money this would amount to, and what the total size of the non-loan allocation would be.

Recommendation

None at this time. Analysis for this will be sent separately.

2.3 Maximum capacity removal

It has been suggested that the Committee consider a maximum amount of capacity to be reduced. Analysis (see the three Alternative Bundles for details) indicates that 50% of capacity (as per capacity estimate that is part of the buyout score equation) will be reduced under Alternative 1 if 500 or more bids are submitted, that the 50% maximum capacity threshold is unlikely to be met under Alternative 2, even if all permit holders submitted bids. More than 700 submitted bids would likely be necessary under Alternative 3 to reach a 50% reduction in capacity.

Pros

- May drive the bidding incentive, i.e. permit holders may be willing to bid lower if there is a maximum.
- May decrease the degree to which the Buyout may affect shore-side infrastructure by....*add something here*....
- Establishes for the industry a limit to how much capacity may be retired, mitigating against a fear that too many boats may be retired.

Cons

- A cap may limit the maximum amount of capacity reduction available for a fixed sum (e.g. \$100 million) as bids may no longer be accepted despite monies still being available

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. The Ctte requested further analysis prior to making a decision at the 7/27 meeting.

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

Pros

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

Cons

- A cap may limit the maximum amount of capacity reduction available for a fixed sum (e.g. \$100 million) as bids may no longer be accepted despite monies still being available

Recommendation

None at this time. Analysis of this option will be sent separately.

2.5 Vessel size class removal cap

No final decision was reached on this issue at the past meeting, but the will of the Ctte was tending towards not placing restrictions on capacity removal by size class.

Pros

- Reduce impacts on infrastructure in some ports.
- May prevent large removal of a particular segment of the industry, if such a segment is vulnerable under current regulations.
- Upholds the Ctte's objective to maintain the character of the fleet.

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.

Two options:

1. No vessel size class removal cap.
2. Not allow more than 50% of one size class to be removed during the buyout

Recommendation

If the Ctte 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 Ctte should set this percentage higher rather than lower so that industry does not miss an opportunity to remove capacity.

2.6 Options for vessel disposition

2.6.1 Option 2

At the July 27th meeting Option 2 was selected - restricted future use, voluntary scrapping program, and the vessel voucher program. Vessel scrapping will pay \$500 per foot of registered length upon proof of scrapping. Although the Ctte

agreed to Option 2, this section was not finalized because language regarding the retention of open access permits had not been finalized.

Recommendation:

Proceed with Option 2

2.6.2 Vessel Voucher Program

The issue presented to the Ctte for discussion is that if the Ctte allows those with accepted bids to sell their boat to anyone in any fishery, we may be financing an effort increase in the Gen Cat scallop fishery or other fisheries with no fishing capacity (VHP, len, gtons) restrictions like loligo. Possible ways to address this would be to either limit this program to NEMS permit holders, or increase the poundage requirement to ensure that new boats don't enter new fisheries as a result of what is intended to be a beneficial little program. If a lot of boats leave the groundfish fishery and enter other fisheries through this program (and a rotting hulk somewhere is scrapped) the Buyout may be faulted in the future.

2.7 C-DAS Program

2.7.1 Surrender of other permits

Should C-DAS only permit holders be allowed to surrender non-groundfish permits? This money would come from the separate allocation to pay for non-groundfish permits.

Pros

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

Cons

- Additional Cost
- Beyond the scope of this Buyout

Recommendation

The Ctte should consider this option. Potential issues may arise when the industry asks Congress for this extra allocation because it may be significant – although Congress may require that C-DAS only permit holders surrender all their permits (for example the west coast buyback). If problems do surface, this aspect of the Buyout would be eliminated first.

2.8 Referendum

2.8.1 First Referendum

Following this Ctte meeting, staff will incorporate Ctte decisions into the prospectus and prepare for the first non-binding referendum.

How it will work:

1. If the Ctte signs off on the final document, a cover letter, executive summary, and prospectus will be circulated among the Ctte for review. Staff will meet with state marine fisheries directors concurrently to discuss the surrender of state permits
2. Immediately following Ctte approval, a mailing will be sent to permit holders with the cover letter and executive summary. The cover letter will indicate that within the next week permit holders will receive a letter from an independent company implementing the referendum.
3. Regional authorities will be provided with a copy of the Prospectus and instructions on how to vote so that information may be disseminated throughout fishing communities. Information will be provided in Portuguese.
4. An independent balloting company will send a mailing with instructions for online voting. Each permit will be given a login passcode.
5. The vote will be accessible via our website. Permit holders requiring a paper ballot must call staff to have one sent to them complete with return postage (paper ballots will be made available in both English and Portuguese, and will be returned to either staff or the independent company depending on Ctte feedback). Instructions and a description of the preferred alternative will be available online. Voting will be open for a three week period and staff will provide the independent company with the appropriate ratio of votes per permit.
6. 50% of returned ballots must be in support for the program to continue.

The Ctte needs to finalize the structure of the first referendum. There are two possible options:

- 1) One question that reads: "Given the current proposed MCRP, should the Ctte begin to actively seek congressional support for program authorization?" Permit holders will check a box either 'yes' or 'no'.

2) Ask more than one question.

Possible Example:

(Question 1) Do you support the Multispecies Capacity Reduction Program?

- (a) YES, as it is currently written
- (b) YES, but recommend minor changes
- (c) NO, not without major changes
- (d) NO, not under any circumstances

(Question 2) If the MCRP were to go forward as currently presented, at this time do you believe you would be likely to submit a bid for the retirement of your federal fishery permits?

- (a) YES
- (b) NO
- (c) UNDECIDED

Please briefly list any changes you recommend, either minor or major:

The idea with this option would be to take written responses and treat them similar to comments received prior to publishing a final rule, where we would catalog the responses and respond to them on the website. We would strive to accommodate changes that make sense, and explain our reasons for not incorporating suggested changes in such cases.

Recommendation:

Staff feels that the Ctte should make a decision based on sentiments expressed at the meeting.

2.8.2 Final Referendum

The Ctte discussed two options regarding the implementation of the final vote.

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.

Other considerations:

- Multiple bidding options/rounds - There is a proposed Long Liner/Processor Pollack buyback with multiple rounds of bid submission and ranking. Could this work in the Northeast? What might be the benefits and costs?

Staff contacted an auction specialist (Chris Anderson, an economics professor at URI) who offered to assist in developing a bid submission process that may fit our needs.

- Require 2/3 responding be in favor - Two reasons: 1) 51% may result in some staying in who do not want to, 2) Congress required 2/3 support of the West Coast Buyback.

Recommendation

It is recommended that the final referendum occur *prior to* the notification of bid acceptance. All permit holders will be notified of the outcome of the Buyout (percentage of capacity removed, number of permits removed, the amount of history removed, etc.), after which everyone votes. 2/3 of returned votes must support the Buyout for it to proceed.

3 Agenda Item C: Review of Timeline

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

September 11	Ctte meeting
Week of October 25-29	Draft cover letter, executive summary, circulate among the Ctte
October 3/4	Mail cover letter and executive summary to permit holders
October 10/11	Target mailing date for non-binding poll - finalized prospectus posted on nebuyout.org and sent to regional leaders
October 15	Voting opens
November 4	Voting closes
Week of November 5th	Results posted

-----**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