

TO: MULTISPECIES CAPACITY REDUCTION COMMITTEE  
FROM: CHRIS MEANEY  
SUBJECT: SEPTEMBER 11 MEETING SUMMARY  
DATE: SEPTEMBER 14, 2006

---

Attendees: Carlos Raphael, Bob Lane, Phil Ruhle, John Pappalardo, Greg DiDominico, David Borden, Chad Demarest and Chris Meaney attended in person. Barbara Stevenson, Vito Giacalone, and Peter Kendall participated via conference call.

1) Comment period

Due to conference call complications the meeting began a half hour late. David Borden reminded the Ctte that the goal of the meeting was to finalize agenda items so that the Ctte and staff could prepare to present the Program to the public prior to the first referendum. Ctte members were given the opportunity to ask questions regarding the Capacity Reduction Alternatives Analysis Overview documents, the Analysis Method document, and the Capacity Reduction Alternatives Comparison document. These documents were disseminated prior to the meeting and can be accessed on the 'download' page at [www.nebuyout.org](http://www.nebuyout.org). The comment period quickly moved to a discussion of the preferred alternative which is summarized below.

2) Discussion Items

a) Selection of a Preferred Capacity Reduction Alternative

The Ctte debated a preferred alternative once again. Varying opinions were voiced on which Alternative would be best for the groundfish industry, and which would have the greatest likelihood of garnering support within the fishing community at large and in Washington DC. Chris Meaney addressed the Ctte regarding a conversation he had with Peter Leipzig of the west coast groundfish trawl fishery buyback. It was indicated that Congress required all permits, including non-groundfish permits, be surrendered in order for loan appropriation to occur. Their group had put together a proposal very similar to out Alternative 3, and it was dismissed by Congress in favor of an Alternative 2-like program. The Ctte had mixed feelings as to whether or not this should deter the Ctte from putting forth their favored Alternative.

After a lengthy and energetic debate regarding the merits of the various Alternatives, discussions coalesced around Alternative 1 and Alternative 2. Most Ctte members favored Alternative 2, though those in support of Alt 2 noted that their support was primarily because they wanted to go to Congress with an approvable plan. The idea of taking a preferred Alternative (such as Alt 3) out to the public but knowing that such an Alternative was unlikely to be approved by Congress was viewed as potentially harmful to the Buyout's prospects. Initial

impressions will be formed, pro or con, based in large part upon what the Ctte presents to the public at this stage. Presenting a known non-starter could alter the expectations and opinions of the fishing industry, other interested parties and Congressional delegations. The majority of the Ctte agreed that it was critical to bring out as fully-formed a program as possible, and one that was likely to be approved by Congress. Others who did not think this was necessary offered the possibility of presenting Congress with two Alternatives - potentially the two ends of the spectrum Alternative 1 and Alternative 2, and negotiating the pros and cons of each.

The few in favor of Alternative 1 based their stances on the reduced cost of this option, and the fact that the buyout is intended to benefit the groundfish fishery. There was a strong concern among many Ctte members, both in favor of and opposed to Alternative 2, that Congress may not authorize the grant covering payments for non-groundfish moratorium permits—a critical element of Alternative 2.

Language was refined to reflect that the Ctte favored Alternative 2 and would specify that they could not support this Alternative (nor, likely, the Buyout) if the Congressional grant to cover the value of non-groundfish moratorium permits was not approved. This language garnered the support of all Ctte members but one.

It was agreed by all that the Ctte would table selecting a preferred Alternative until the end of the meeting and proceed with further decision making based on Alternative 2 as an interim- preferred alternative,

Upon revisiting the issue, two Ctte members had left for prior engagements, and those remaining requested further analysis on payments for non-groundfish permits for bids accepted from low DAS permit holders. It was decided that a preferred alternative would be selected by the Ctte via a conference call on Monday, September 18.

b) Non-groundfish permits

a. *History*

The Ctte decided that language will be incorporated into the final proposal that allows permit holders to retain open access permits and open access history. The Ctte decided that by allowing people to keep their open access permits and history it is likely to increase an individual's willingness to submit a bid. The Ctte noted however that if the surrender of these permits were to be required it would be consistent with current regulations.

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

The Ctte decided to change the method of evaluating bids based on the analysis contained in the September 8 memo (see the Non-groundfish permit multiplier discussion document, [www.nebuyout.org](http://www.nebuyout.org)). Rather than providing permit holders with the value of their premium payment up front and asking them to adjust their bids accordingly, the Ctte will ask permit holders to bid the full value of their business. The amount of their premium payment will be subtracted from the industry loan and added to the amount that will be paid by federal grant.

The Ctte indicated they will continue under a multiplier of 1.5, but reserved the right to make changes to this at a later date. Two driving issues expressed during the meeting: 1) Higher multipliers translate directly into higher grants, potentially making the Buyout a tougher sell in Congress without significant gains for the groundfish industry and 2) A higher multiplier would increase the likelihood of inducing bids from those who have groundfish permits and median-to-low recent documented landings in other fisheries.

One question left unresolved was how to address permit holders with low numbers of multispecies DAS that may be inclined to bid very low for their groundfish permit and collect a large sum via their premium payment. Staff has taken some time to digest this issue and determined that there is no risk of this occurring due to the new bid evaluation method, which rates all bids relative to that vessel's capacity estimate—and noting that the capacity estimate is a product of VHP, LEN and DAS. Therefore, low DAS vessels would have to bid proportionally low in order to have their bids accepted.

c) Maximum Capacity Removal

The Ctte agreed to set the maximum capacity to be removed at 50%. In accordance with July 27<sup>th</sup> meeting, language will clearly state the amount of capacity sought for removal by the Buyout will be 25% or greater however no more than 50%.

d) Maximum Acceptable Bid

A maximum buyout score will be designed to prevent the industry from overpaying for capacity. All bids will be accepted up until the 25% capacity minimum is met. After that point, bids determined to be 'overvalued' will be rejected. Permit holders will be notified that maximum buyout score has been set; however the specific number will not be disclosed. Staff will develop a recommendation for an appropriate maximum buyout score based on the distribution of predicted buyout scores.

e) Vessel Size Class Removal Cap

The Ctte decided that no size vessel size class shall be subject to more than 50% capacity removal. According to the analysis it does not appear as though any one size class will be reduced by 50%. Some members of the Ctte advocated for a cap of 60%, but it was decided such a percentage appeared arbitrary. The designation of a cap signifies the Ctte has discussed the concerns associated with removing too much capacity and their intent to maintain the character of the fleet.

f) Options for Vessel Disposition

The Ctte reaffirmed their support of Option 2--Restricted Future Use--with the voluntary scrapping program and vessel voucher program. The Ctte will include language in the final document to prevent vessels dispossessed by this Buyout from being used as artificial reefs.

g) C-DAS

The Ctte decided that C-DAS only permit holders will not have the option to surrender their other federal fisheries permits under the non-groundfish permits payment program. The Ctte felt strongly that this would be akin to a non-groundfish buyout program, and felt that if such a program was necessary it would better serve those fisheries if it were developed independently with the objectives of those fisheries in mind.

h) Referenda

a. *First referendum mailing*

There was a significant discussion surrounding how to structure the first referendum. A series of concerns were expressed, the first being if permit holders were confronted with multiple questions, how they answered one may affect the answer of another. A second concern was that if the Buyout was changed on account of peoples comments, those who voted a particular way may not be represented by the new changes, and a second non-binding vote might be warranted. Others noted that the first referendum is an opportunity to gather valuable information from permit holders and, potentially, to improve the program.

It was decided that the first referendum will ask one question and give permit holders the opportunity to submit written comments on the proposed program. A question will be developed and circulated among the Ctte.

Permit holders will be notified that written comments will be reviewed by staff and presented to the Ctte, and summaries of responses will be posted on the Buyout's website, but there are no guarantees that changes to the Buyout will be made prior to the congressional phase.

Votes in the first referendum will be counted on the 4:2:1 A, B, C-DAS ratio. 50% of returned votes (not ballots) must be in support of the Buyout in order for the first referendum to pass.

b. *Final referendum*

The final decision of the Ctte is that the final referendum will occur after bid submission and prior to the notification of bid acceptance. Permit holders will be notified of the outcome of the Buyout (percentage of capacity removed, number of permits removed, the amount of history removed, cost to the industry, etc.), prior to voting.

The Ctte was presented with an analysis designed to assist in determining whether 50% or 66.7% of the final referendum total votes must be in favor of the Buyout in order for it to proceed. Analysis indicates that if 50% of returned votes be in favor is required; there is a greater chance that individuals will be repaying the loan despite their opposition to the buyout. Requiring 66.7% of returned votes be in favor decreases the likelihood of emerging from the Buyout with a majority of surely permit holders.

The Ctte decided 2/3 of returned votes must support the Buyout for it to proceed.

3) Other Items

- a. The Ctte selected a target capacity removal range of between 30 and 40%. Staff will refine this range for inclusion in the final document. This mitigates the risk of Congress reducing funding due to our analysis that shows that the minimum 25% capacity reduction may be achievable for significantly less than the total amount we intend to ask Congress for. The intention is to signal to Congress that the minimum capacity reduction is a minimum and not a target.
- b. A Ctte member requested that the executive summary discuss the potential to have lump sum payments placed in an IRA or similar account. The sentiments were expressed that this may prevent reinvestment in fisheries and increase the likelihood of permit holder participation in the Buyout.
- c. A Ctte member wanted to make sure that the executive summary reflected the main document's inclusion of a provision banning scrapped vessels from being used for artificial reefs.

The Meeting adjourned at 3:15 p.m.