

Program Development and Description

Introduction

A groundfish fishing capacity reduction program has been 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. The following is an overview of the Program's development and a description of the proposed Program.

Program development

Upon its inception the Steering Committee specified three conditions to guide the development of the program. The first stated that the program would focus on reducing fishing capacity (as opposed to number of permits, landings history, Days-at-Sea, etc). The second was that any loan funds obtained by the groundfish industry would be used only for groundfish fishery capacity reductions. Finally, any program developed would have to be available for all groundfish permit holders regardless of their Days-at-Sea (DAS) allocations.

Two programs were developed, one for permit holders with Category 'A' and 'B' DAS, and one for permit holders allocated only Category 'C' DAS. For 'A' and 'B' DAS permits a reverse-bid auction (lowest bid wins) was selected as the means for capacity reduction. For 'C' DAS (only) permits a fixed payout, proportional to the amount of category 'C' DAS allocated, would be employed.

For the reverse-auction capacity reduction program (available to 'A' and 'B' DAS permit holders), the Committee developed a method of evaluating bids using a ratio of a permit's capacity (defined by the Committee as a combination of maximum upgradeable horsepower, length, and allocated DAS) relative to the bid submitted. Those permit holders with the lowest bid-to-capacity ratio would be accepted. Three Capacity Reduction Alternatives were developed, each with different requirements upon acceptance of a bid.

Alternative 1 requires permit holders with accepted bids to surrender only the individual's Federal Multispecies permit. The strength of this Alternative is that it is the least expensive Alternative per unit of capacity retired. The perception of a high probability of effort shifting into non-groundfish fisheries post-buyout, together with the high likelihood Congress and the States will not support such an Alternative (as exemplified by precedent set in similar capacity reduction program efforts), are viewed as this Alternative's primary drawbacks.

Alternative 2 requires the surrender of all federal permits for permit holders with accepted bids. This Alternative requires a grant from the federal government separate from the industry-funded loan to pay for the purchase of non-groundfish federal moratorium permits. This Alternative will remove vessels from all federal fisheries, and it may be perceived as being the least likely to shift effort into other fisheries. Alternative 2 is the most expensive per unit of capacity retired, but this is because capacity is retired in all fisheries. Should Congress not fund the purchase of non-groundfish permits, the Committee is not willing to use groundfish loan funds to cover the cost of buying these permits.

Alternative 3 is a hybrid of Alternatives 1 and 2, and it employs a threshold approach to reducing capacity based on either a permit holder's number of A DAS held or a percentage of their total revenues derived while on a groundfish DAS. The strength of this Alternative is that its cost per unit capacity is estimated to be less than Alternative 2, and it is assumed to result in less effort shift than Alternative 1. Like Alternative 2, this Alternative requires a grant from the federal government to pay for the purchase of non-groundfish federal moratorium permits. As noted in Alternative 2, should Congress not fund the purchase of non-groundfish permits, the Committee is not willing to use groundfish loan funds to cover the cost of buying these permits.

The Committee utilized extensive modeling in their analysis of these three Alternatives, confirming that significant reductions in both capacity and other metrics like DAS and landings history were likely. When interpreting the analyses, the Committee relied on their stated objectives, feedback from the public information sessions, and the experiences of other federally-backed fishery capacity reduction programs to select a preferred Alternative and finalize a program proposal.

Alternative 2 was selected by the Committee on a majority vote. The minority cited a discomfort in requiring the industry to repay a loan while grant funds are used to purchase non-groundfish permits, reservations regarding the actual amount of effort likely to shift into other fisheries, and the limitations in approaching Congress with one Alternative instead of a more varied suite. The majority felt that this program will reduce capacity in the groundfish fishery in a cost-effective way, and will result in the least amount of fishing effort shifting into other fisheries. Importantly, it will also meet the anticipated Congressional demand for the retirement of all federal fishery permits associated with bought-out vessels, as has been stipulated in all approved Buyout programs since 1999. Committee members are unanimous in support of their original mandate that groundfish loan funds only be used to purchase capacity in the groundfish fishery, and are not to be used for any other purpose (i.e., dealing with capacity problems in other fisheries or administration of the program).

The Committee views the proposed Capacity Reduction Program as an opportunity for the industry to invest in its own future. This opportunity may benefit both those seeking to exit the fishery and those who choose to remain. Ideally, the program will be implemented prior to the upcoming groundfish amendment so that decisions incorporating post-buyout data are possible. 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.

Program description

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. For permit holders holding A and B Days-at-Sea, the Capacity Reduction Program will use a reverse-auction bid system. Bids will be given a 'Buyout Score' based on the ratio of a permit's capacity to the bid submitted and will be accepted from lowest to highest until loan funds are exhausted.

Cost of capacity reduction

To reduce capacity, the federal government will be requested to guarantee a loan of not more than \$100 million to the groundfish industry. The actual loan amount will not be finalized until all bids have been submitted and the amount of capacity to be removed has been determined by the National Marine Fisheries Service. The money will be used to purchase groundfish fishing capacity, as measured by a combination of permitted fishery access, vessel length and horsepower, and catch history. In order to minimize redirection of effort a federal grant of up to \$25 million will be sought to purchase non-groundfish federal fishery moratorium permits. This Congressional grant will not have to be repaid.

Program constraints

The Committee has selected a series of program constraints in an effort to assure that program objectives are met, to prevent a scenario where the industry overpays for capacity, and to prevent disproportional adverse impacts on the industry.

1. *Minimum capacity reduction*

A minimum of 25% of the groundfish fleet's estimated capacity must be removed. If this amount is not met, the program will not proceed. A target capacity removal range is set for 30-40%.

2. *Maximum Capacity*

No more than 50% of the fleet's estimated capacity shall be removed, nor shall greater than 50% of any one vessel size class be removed.

3. *Maximum acceptable bid*

A bid cutoff will be in place to prevent extreme upper range bids from being accepted that may not markedly reduce the overall amount of capacity bought out. Once the minimum capacity removal threshold of 25% has been met and loan funds are still available, bids that result in buyout scores in the top 10% of all received bids will not be accepted. This cutoff will only come into play when the amount of loan funds available allows the Buyout to accept greater than 90% of all bids received.

Loan repayment

To repay the loan, a fee of not more than 4% will be assessed on all landings from trips made on a groundfish DAS. The exact fee will be finalized once all bids have been accepted. The loan is expected to be repaid in full in 30 years.

Method of capacity reduction

Category 'A' and 'B' Days-at-Sea permit holders:

All successful category A and B DAS permit holder bidders will be required to surrender all federal moratorium fisheries permits. As proposed, permit holders will be allowed to retain their open access permits and histories.

In addition, a lump-sum premium payment will be issued for the value of a permit holder's non-groundfish federal fishery permit or permits. The source of the payment will be a government grant,

separate from the loan to the groundfish industry. The payment amount will be equal to one and a half times the documented average annual revenues from 2003-2005 derived from any or all of the following moratorium permits: American lobster, black sea bass, monkfish, scup, squid/mackerel/butterfish, and summer flounder. Maximum payments for these permits will be capped according to the permit holders allocated multispecies A & B DAS. For example:

DAS	Premium Payment Cap
< 17.1	\$75,000
> 17.1 ≤ 24.9	\$100,000
> 24.9 ≤ 48.1	\$200,000
> 48.1 ≤ 80.5	\$300,000
> 80.5 ≤ 88	\$400,000
> 88 ≤ 113	\$500,000
> 113 ≤ 134	\$600,000

Capping the premium payment is intended to prevent extremely low DAS boats from bidding low for the value of their groundfish permits, being accepted, and collecting a sizable premium payment.

Disposition of vessels

Successful bidders will have three choices for the disposition of their vessel:

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.

Program for Category ‘C’ Days-at-Sea (only) permit holders

All permit holders allocated only category C DAS will be allowed to receive a lump sum payment in the amount of \$100 per category C DAS held. A and B DAS permit holders that also have C DAS permits will be compensated \$100 for each C DAS permit held.

Referenda and order of events

The first referendum is included with this material and is intended to gauge industry support and allow participants to comment on the Capacity Reduction Program as proposed.

Contingent upon industry support, 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 NMFS to issue a letter to all permit holders soliciting binding bids for the surrender of their fisheries permits (as discussed above and outlined in the Prospectus document).

After bids are submitted, NMFS will analyze the outcome of the Buyout (including percentage of capacity removed, number of permits removed, the amount of history removed, etc.). The final results of this analysis will be disseminated to permit holders in a mailing with the final referendum ballot. At this point in the process, permit holders will vote to determine if they approve of the Buyout. In order for the program to proceed, at least two thirds of the votes received must be in

favor of the Program. If the Buyout is approved, successful bidders will receive a lump sum payment for their bid and any other payments as outlined above and in the Prospectus.

Vote counting

During both the first and second referendum votes will be counted as follows: For each category A DAS held, the permit holder will receive four votes. For each category B DAS held, the permit holder will receive two votes. For each category C DAS held, the permit holder will receive one vote. Votes are weighted in this manner to reflect permit access to the fishery, such that C DAS have the least amount of access to the fishery, B DAS permits have limited access to healthy fish stocks, and A DAS permits have full access to all fisheries.