Community Purchase of Halibut and Sablefish Individual Fishing Quota Shares
Discussion Paper
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Executive Summary

- National Standard 8 of the Magnuson-Stevens Fishery Conservation Management Act directs that "Conservation and management measures shall, consistent with the conservation requirements of this Act (including the prevention of overfishing and rebuilding of overfished stocks), take into account the importance of fishery resources to fishing communities in order to (A) provide for the sustained participation of such communities, and (B) to the extent practicable, minimize adverse economic impacts in such communities."

- The Oceans Studies Board of the National Academy of Science's National Research Council (NRC) report on Individual Fishing Quotas, Sharing the Fish: Toward a National Policy on IFQs, explicitly recommends that "For existing IFQ programs, councils should be permitted to authorize the purchase, holding, management and sale of IFQ by communities."

- Alaska's halibut and sablefish IFQ program, created prior to the adoption of National Standard 8, was not designed to minimize adverse economic impacts on smaller fisheries-dependant coastal communities in the Gulf of Alaska and, by all current indications, will not provide for the sustained participation of many of Alaska's smaller Gulf communities in the halibut and sablefish IFQ fisheries.

- Existing loan programs or newly created community loan entities may help reverse current trends regarding quota share transfer and job loss. However, these approaches still focus on individual ownership and are subject to an individual's economic needs and decisions.

- Community IFQ ownership provides an alternative model that could allow qualifying communities to obtain halibut and sablefish fishing rights and preserve those rights in perpetuity — similar to an endowment.

- Eligible communities are defined by four criteria: 1. located on salt water (coastal); 2. fisheries-dependant; 3. remote (no road access); and 4. less than 2,500 people as recorded by the 2000 census. These criteria qualify six communities in halibut management area 3B, twelve communities located in halibut management area 3A, and twenty-two communities located in halibut management area 2C.

- A non-profit community development corporation or fisherman's association would be an appropriate ownership and management entity for community IFQs. The entity must be inclusive of all residents in qualifying coastal communities, native and non-native alike.

- Communities should be restricted by the same ownership caps currently applied to individual IFQ holders. In addition, communities should be restricted to purchasing shares for areas in proximity to their communities. Additional limitations should be applied to halibut management area 2C and sablefish area "Southeast" and "West Yakatat".

- Given community caps and geography limitations as well as market costs, it is improbable that a cumulative cap for the program is needed.

- Once IFQs are purchased by the community ownership entity, they become "community fishing quota" (CFQ) and can be fished by community residents without block or vessel class distinction.

- If blocking restrictions are imposed, they should not be limited in number nor more restrictive than the current ratio of blocked and unblocked shares.

- Allocations within communities should primarily be determined by the community ownership entity --- with each community developing its own criteria.

- Communities are required to have some community residents involved in the fishing of community quota shares and cannot "lease" quota share for fishing by non-residents with non-resident crews.

- Individuals should have use caps, probably in the range of 25,000 to 75,000# per individual — inclusive of privately held IFQs.

- The community ownership entity remains the registered owner of community quota shares and annually notifies RAM division of its intent to transfer an amount of quota to an designated community member.

- Communities are free to resell their quota shares; however, upon resale quota retains its block and vessel size restrictions. (Some exceptions may apply for blocks in area 3B).

- Codes of conduct will be established for the ownership entity, quota transferee and crewmembers. Administrative costs and dept service will be limited to 25% of ex-vessel value.

- Sunset provisions would compromise the program's objective of creating endowment like fishing opportunities for residents of qualifying Gulf of Alaska coastal communities.

- RAM division of the National Marine Fisheries Service would be the primary agency for administration and oversight of the program.

- Community governing structures provide another approach to natural resource management that may enhancement the success of Alaska's halibut and sablefish IFQ program.

Problem Statement

National Standard 8 of the Magnuson-Stevens Fishery Conservation and Management Act directs that "Conservation and management measures shall, consistent with the conservation requirements of this Act (including the prevention of overfishing and rebuilding of overfished stocks), take into account the importance of fishery resources to fishing communities in order to (a) provide for the sustained participation of such communities, and (b) to the extent practicable, minimize adverse economic impacts in such communities."[1] The current halibut and sablefish IFQ management structure, despite its many benefits, was not designed to minimize adverse economic impacts on fisheries-dependant coastal communities in the Gulf of Alaska, and by all current indications, will not provide for the sustained participation of many of Alaska's smaller Gulf communities in the halibut and sablefish IFQ fisheries.

Requested Action:

GOAC[3] requests that the council adopt, for staff analysis, this discussion paper and the draft Elements and Options for Analysis Regarding Community Ownership of IFQs.

Background:

The NPFMC reviewed IFQ proposals and staff tasking at their February 2000 meeting. Also at this meeting the GOAC[3] presented a "Supplemental Memorandum" to its proposed regulatory changes which further outlined the concept of community purchased fishing quotas (CFQs). Because of concerns about Council staff time and available Council resources, the Council directed GOAC[3] staff to assist council by developing a "Discussion Paper" that would address seven issues regarding their proposal.[2]

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[1] 16 U.S.C. 1851, Sec 201.

[2] Mr. O'Leary, in a friendly amendment accepted by Mr. Benton, moved to have the GOACCC's proposal regarding the community ownership if IFQ's forwarded for the Coalition to work with Council staff to develop a discussion paper to discuss the following issues:

1. Community qualifications to purchase and hold IFQ's.
2. Appropriate ownership entity within the qualifying community.

Also, during the February Council meeting, Council Staff was directed to "fast track" the halibut charter IFQ proposal. Gulf of Alaska Coastal Communities in halibut management areas 3A and 2C requested that, consistent with the recommendations of Sharing the Fish,[3] coastal communities be considered for analysis as possible recipients of halibut charter quota share.

During the April council meeting, the Advisory Panel (AP) to the Council, in deference to the NRC report, supported inclusion of communities in the halibut charter analysis. For the Councils discussion of the issue, the GOAC[3] presented a concept document outlining a halibut charter IFQ "set aside". The Council directed GOAC[3] to include community halibut charter IFQs in their forthcoming "discussion paper". Although they are related issues, the halibut charter IFQ discussion will be presented separately.

History

The halibut and sablefish Individual Fishing Quota (IFQ) Share system had significant impacts on the Gulf of Alaska fishing industry as well as those fisheries dependant coastal communities which border Alaska's Gulf Coast. Initial allocation criteria limited recipients of

3. Applicable ownership caps.
   A. For individual communities.
   B. For all qualifying communities.

4. Purchase, sale and use restrictions.
   A. Blocked and unblocked issues.
   B Transferee residency requirements.
   C. Individual use caps.

5. "Codes of conduct" for the owner\transferee relationship.

   A. Skipper and crew shares.
   B. Administrative costs.

6. Appropriate administration and oversight.

7. Other issues as related and appropriate.

[3] "The Committee recommends that councils consider including fishing communities in the initial allocation of IFQs, ..." P. 200, Sharing the Fish: Toward a national Policy on IFQs.

quota share to vessel "owners" and "lessees" who had participated in the fishery in a three year window between 1988 and 1990 and proportioned quota share exclusively on the basis of catch during the best five of seven years (1984-90) for halibut and the best five of six years (1985-1990) for sablefish. The IFQ program attempted to protect small boat fishermen by creating a "block" system and classes of shares based on vessel length and to address the problem of limited "rural coastal community development of a small-boat fishery."[4] Nevertheless, there were no safeguards implemented to inhibit transfer of quota from Gulf of Alaska coastal communities and no regulations tying economic benefits from the resource to these communities.

Because of concerns raised about IFQ type fisheries management,[5] Congress, in 1996 as part of the Sustainable Fisheries Act, imposed a moratorium on new IFQ programs and directed the National Academy of Science's National Research Council (NRC) to study a wide range of questions concerning the social, economic, and biologic effects of IFQs and to make recommendations about existing and future IFQ programs. The Ocean Studies Board of the Academy conducted five hearings and heard testimony from a host of witnesses. Their report, entitled Sharing the Fish: Toward a National Policy on Individual Fishing Quotas (Sharing the Fish)was published in December 1998 and sets forth a number of recommendations and public policy concerns regarding the use of individual fishing quotas.

The NRC report makes four recommendations to the Secretary of Commerce and the National Marine Fisheries Service regarding review and implementation of IFQ programs and then lists 14 issues that regional fisheries management councils should address in developing and implementing IFQ programs. One of the four recommendations and six out of the fourteen issues include fishery dependant coastal communities. The Magnuson-Stevens Fishery Conservation and Management Act indicates that the NRC report is the national policy document on IFQ's, and

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[4]The Halibut and Sablefish IFQ program's Environmental Assessment/Regulatory Impact Review identifies ten problems that the ITQ program was intended to address. P. 307, Sharing the Fish: Towards a National Policy on IFQs.

[5]"A number of problems were identified in operative IFQ programs during the committee's work. Prominent among them are concerns about the fairness of the initial allocations, effects of IFQs on processors, increased costs for new fishermen to gain entry, consolidation of quota shares (and thus economic power), effects of leasing, confusion about the nature of the privilege involved, elimination of vessels and reduction in crew, and the equity of gifting a public trust resource." P. 4, Sharing the Fish: Toward National Policy on IFQs.

requires that the report's recommendations are considered by the Secretary of Commerce and regional management councils. "After the expiration of the moratorium, Congress requires any council submitting an IFQ program, and the Secretary of Commerce in reviewing that program for approval, to consider this NRC report and ensure that the program includes a process for review and evaluation . . . and to facilitate new entry, especially of those not favored by the initial allocation (Sec. 303 [d][5]|."[6]

With respect to the Secretary of Commerce, the report states: "Councils should consider including fishing communities in the initial allocation of IFQ (as community fishing quotas), where appropriate. The Secretary of Commerce should interpret the clause in the Magnuson-Stevens Act pertaining to fishing communities (National Standard 8)[7] to support this approach to limited entry management."[8]

The report advises regional councils that they "could avoid some of the allocation controversies encountered in the past by giving more consideration to (1) who should receive initial allocation, including crew members, skippers, communities, and other stakeholders; (2) how much they should receive; and (3) how much the potential recipients should be required to pay for the initial receipt of quota. . . ."[9] It further cautions that "if important objectives include maintaining owner-operated fisheries and fishery-dependant coastal communities, greater attention may have to be given to equity considerations in setting upper limits on ownership, limiting transfer of quota share outside communities, and similar measures."[10]

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[6]P. 18, Sharing the Fish: Toward a National Policy on IFQs.

[7]16 U.S.C. 1851, Sec 201. "Conservation and Management measures shall, consistent with the conservation requirements of this Act (including the prevention of overfishing and rebuilding of overfished stocks), take into account the importance of fishery resources to fishing communities in order to (A) provide for the sustained participation of such communities, and (B) to the extent practicable, minimize adverse economic impacts in such communities."

[8] P.8, Sharing the Fish: Toward a National Policy on IFQs

[9]P. 9, Sharing the Fish: Toward a National Policy on IFQs

[10]P.10, Sharing the Fish: Toward a National Policy on IFQs

Finally, the National Research Council concludes,

> (w)hen designing IFQ programs, councils should be allowed to allocate quota shares to communities or other groups, as distinct from vessel owners or fishermen. For existing IFQ programs, councils should be permitted to authorize the purchase, holding, management, and sale of IFQ by communities. Such quota shares could be used for community development purposes, treated as a resource allowing local fishermen to fish, or reallocated to member fishermen by a variety of means, including loans.[11]

On August 16, 1999, the Gulf of Alaska Coastal Communities Coalition (GOAC[3]) submitted a proposal to the North Pacific Fisheries Management Council (NPFMC) requesting minor regulatory changes to the limitations on ownership of halibut and sablefish quota shares. The requested language would "allow small fishing dependant communities in the Gulf of Alaska, with no road access to larger communities, to form community-based, non-profit organizations which could acquire - through the open market - halibut and sablefish quota shares for the purpose of retaining quota shares in the communities for lease to and use by resident commercial fishermen."

The GOAC[3]'s proposed changes are consistent with the directives of <u>Sharing the Fish</u>: "(a)nother way to implement Community Fishing Quotas (CFQs) would be to modify existing legislation and practice to allow communities and other organizations such as co-operatives and community development associations, to enter into the markets for IFQ. . . ."[12] The proposal will not compromise the substantial benefits of the IFQ program — safety, conservation, the elimination of ghost fishing, economic efficiency, better quality and longer market access,[13] and it is designed to minimally disrupt existing participants while expanding opportunities for coastal communities. Moreover, the proposal may provide markets for a class of fishermen with difficult to sell quota share.

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[11] P. 9, <u>Sharing the Fish: Toward a National Policy on IFQs</u>

[12] P. 128, <u>Sharing the Fish: Toward a National Policy on IFQs</u>

[13] P. 35, See Also "Problems & Issues", P. 73, <u>Sharing the Fish: Toward a National Policy on IFQs</u>

In October, 1999, the Council's IFQ Implementation Committee reviewed the GOAC[3] proposal. Several members of the committee saw the proposal as a way to address concerns about declining economic opportunities in rural communities while others were concerned that the proposal would create competition for quota share and would move away from an owner/operator fishery. The Implementation Committee had a tie vote regarding whether or not to recommend the proposal for analysis. The AP, during the February meeting, briefly discussed the community IFQ ownership proposal but focused their attention on prioritizing other amendments to current IFQ regulations.

Initial Allocations

Residents of smaller[14] fisheries-dependant coastal communities in the Gulf of Alaska initially qualified for and were issued, relative to their fishing heritage and the total number of quota shares, a small amount of halibut and sablefish quota. Commercial Fisheries Entry Reports 98-SPSGOA-N (Smaller Gulf of Alaska Communities) and SPLGOA-N (Larger Gulf of Alaska Communities) confirm that, in Areas 2C, 3A and 3B, residents in the smaller communities were initially issued 3,938,949 pounds of halibut IFQ or @10.5% of the total halibut IFQ pounds issued and 1,402,430 pounds of sablefish IFQ or @ 3.01% of the total sablefish IFQ pounds issued. In contrast, vessel owners living in Alaska's larger Gulf communities[15] were issued 24,838,167 pounds of halibut IFQ or 66% of the total halibut IFQ pounds issued and 10,672,846 pounds of sablefish IFQ or 23% of the total sablefish IFQ pounds issued.

Although historical data is limited, "[i]n most cases, the lack of socioeconomic data makes it impossible to characterize precisely how communities may be affected by the implementation of

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[14]Based on the 1990 census data for communities of less than 2,000 residents and as used in the August 1998 CFEC report "Holdings of Limited Entry Permits, Sablefish Quota Shares, and Halibut Quota Shares Through 1997 and Data on Fisheries Gross Earnings." In this report, small communities include Chignik, Chignik Lake, Chignik Lagoon, Chignik Bay, King Cove, Prerryville, Sand Point, Ivanof Bay Akhiok, Karluk, Larsen Bay, Old Harbor, Ouzinkie, Port Lions, Chenega, Chenega Bay, English Bay, Nanwalek, Ninilchik, Port Graham, Seldovia, Tatitlek, Angoon, Craig, Elfin Cove, Hoonah, Hydaburg, Kake, Kassaan, Klawock, Klukwan, Metlakatla, Pelican, Saxman and Yakutat. The CDQ communities of Akatan, Atka and Belkofski, although included in the CFEC information, are excluded from the discussion herein.

[15]Large communities include Cordova, Haines, Homer, Kenai, Ketchikan, Kodiak, Juneau, Petersburg, Seward, Sitka, Valdez, Whittier and Wrangell.

an IFQ program . . ."[16] it is widely understood by fishermen from rural areas that, had the IFQ allocation criteria reached back 10 or 20 years for fishing catch history and, like the state of Alaska in their salmon limited entry program, awarded points for longevity---for those who participated in the fishery when it lasted for more than a few days---and recognized economic dependance on the halibut and sablefish fisheries, substantially more of the halibut and sablefish quota share would have been allocated to residents in smaller coastal communities. As the NRC report explains, " The particular years used to determine historical participation and eligibility for IFQ can have profound social and distributional effects. . . ."[17]

Fairness, that is equity among a broad spectrum of stakeholders,[18] in the initial allocation of quota share is crucial for the success of an IFQ program. The NRC report talks about a "critical mass" of quota being allocated to an individual or community for them to be economically able to continue to participate in the fishery and further expands the concept of "catch history". "Catch history, as a measure of participation in a fishery, reflects the participation not only of individual and occupational groups, but also of fishing communities. From this perspective, communities may be entitled to initial quota allocations."[19] The "block system" and other exemptions for Southeastern Alaskan small boat fishermen attempted to provide a "critical mass" of quota for small boat fishermen, but parallel limitations on quota transfer were not considered for coastal fishing communities.

Those that designed and implemented the halibut and sablefish IFQ program are correct in clarifying that their motives were not to harm rural communities and that IFQs were intended as a fisheries management program and not a "social program". Furthermore, the Magnuson/Stevens Act required the regional councils to consider "recent participants" when designing IFQ

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[16]Page 386, Sharing the Fish: Toward a National Policy on IFQs

[17] Page 140, Sharing the Fish: Toward a National Policy on IFQs

[18] "Such stakeholders include vessel owners, hired skippers, crew member, processors, communities, fishery managers, environmental groups, and others." P.8, Sharing the Fish: Toward a National Policy on IFQs.

[19] P. 200, Sharing the Fish: Toward a National Policy on IFQs

initiatives.[20] And finally, residents from rural communities were treated equitably within the criteria adopted by the program --- they received the quota that they qualified for just like residents from all other communities. Nevertheless, limitations on initial allocations did not "minimize adverse economic impacts in (fishing) communities," and it has contributed to the continuing erosion of "sustained participation of such communities" in the halibut and sablefish fisheries.

GOAC[3] understands that many of the problems currently being experienced by Gulf of Alaska communities, such as decline in community fishermen and separation of communities from proximate marine resources, are transgenerational trends that existed before the implementation of the IFQ program. Other community problems, particularly problems of substance abuse and welfare dependance, also cannot be blamed on IFQs. For the most part, the issuance and implementation of IFQs simply accelerated existing community trends or combined with existing resource management strategies to cumulatively impact rural communities. Community ownership of quota share will not solve all of the problems rural communities face, and it is unknown if community fishing quotas will reverse existing trends. However, "(c)ontinued low prices for salmon (and herring) have made halibut and sablefish catches increasingly important to regional fishing economies"[21] and the GOAC[3] proposal will provide qualifying communities a tool for stopping current trends and for working toward community jobs and economic stability or, as Magnuson-Stevens says, "provide for the sustained participation of such communities."

Quota Share Transfers

In the first three years of the IFQ program, 1995- 1998, almost 25% of the available halibut quota share has transferred from Alaska's smaller gulf communities. During the same time period, rural residents holding quota share has declined by 33%.[22] Although larger Gulf of Alaska community halibut quota share holders have declined by 20% the quota share in these communities has increased by 7%.[23] Granted, consolidation was a goal of the IFQ program and sale and

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[20] 16 U.S.C. 1853, Section 303(b)(6) "Discretionary Provisions"

[21] P. 316, Sharing the Fish: Toward a National Policy on IFQs

[22] CFEC, Report 99-SGOA Communities - SN

[23] CFEC, Report LGOA Communities - SN

transfer of quota share is an individual, and not a community choice based on many factors or circumstances. A prevailing pattern, however, is for a disproportional amount of rural residents to sell their quota shares, and anecdotal evidence suggests that these fishermen do not believe that they were awarded enough quota share to justify continued fishing.

Many have argued that rural fishermen with small amounts of quota have equal standing with other fishermen to fish their allocations and purchase additional quota. This is the "why couldn't they just buy it" argument. In this context "small quota"[24] recipients, whether they live in rural or urban communities, have been selling their shares.[25] Sharing the Fish recognized that "the bulk of consolidation has taken place in the smaller holdings"[26] In fact, given the number of smaller quota share holders that choose not to fish at all,[27] it is possible to conclude that, for many small quota share holders, it is not economically practical to fish less than 10,000# of quota share. Consequently, smaller quota share holders have had limited halibut or sablefish profits to reinvest in additional IFQs — whether or not they live in rural communities.

In contrast, fishermen that received larger initial quota allocations[28] have generally purchased additional shares. This made economic sense because they were able to "leverage" their "gifted"[29] capital of quota shares and, in part, pay for additional purchases with their new asset base. "Any value provides the initial recipients with the capital they may be able to leverage for additional purchases of quota shares. The recipients of initial allocations of quota shares reap a windfall profit. . . ."[30]

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[24]Under 10,000 pounds — the reporting category established by RAM division

[25]P. 25, "1999 Report to the Fleet"

[26]P. 77, Sharing the Fish: Toward a National Policy on IFQs

[27]As confirmed by RAM division, National Marine Fisheries Service

[28]More than 25,000#

[29]Term used by NRC on page 6, Sharing the Fish: Toward a National Policy on IFQs

[30]P. 140, Sharing the Fish" Toward a National Policy on IFQs.

The contrast between consolidation by larger quota share holders and selling by smaller quota issuants has a disproportionally negative impact on isolated fisheries dependant coastal communities. First, very few initial larger quota share recipients reside in smaller coastal communities.[31] Second, when rural residents sell quota share — even if smaller amounts — a larger portion of the economic base for a small community is lost. Many of these communities rely entirely on fishing employment and income and therefore don't have other employment sectors to mediate loss of fishing opportunities. And finally, the rate of decline of quota share from smaller coastal communities is much higher than for the larger communities.[32]

Some of the literature on IFQ predicted that smaller communities would be disadvantaged.

> Freely transferable quota shares may concentrate over time in some communities while other communities lose part or all of their quota (Eythorsson, 1996). . . . Generally, however, one may expect communities with a large share of quota to gain more because of more infrastructure and better access to capital. Some smaller communities dependent on fisheries and without alternative means of support are likely to suffer severe unemployment and related social and economic problems. . . . In Iceland, the main accumulators of quota are companies in the larger towns of the northern part of the country. Small communities, with less than 500 inhabitants, have lost a much greater share of their quotas to larger communities.[33]

This result was not expected from the Alaska halibut and sablefish IFQ program. The September 15, 1992 Environmental Impact Statement (EIS) for the program addressed community concerns in section 3.4, "Potential Movement of QSs Away from Rural Ares Adjacent to the Fishing Grounds." "The concern is that the percentage of QS owned by Alaska residents of coastal communities adjacent to the fishing grounds will decrease substantially and such a change may decrease landings in these communities." The EIS optimistically predicted "[t]he net transfer of

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[31]As confirmed by RAM division, National Marine Fisheries Service

[32]See, for example, Table 11-1a and 12-1a of CFEC's "Changes Under Alaska's Halibut IFQ Program, 1995 -1998.

[33]P.166 Sharing the Fish: Toward a National Policy on Individual Fishing Quota

QSs from Alaskan residents to non residents is not expected to be substantial and the net transfer from local rural residents to other Alaskan residents is expected to be substantially less than it has been for Alaskan limited entry permits. . . ." The GOAC[3] proposal is an important supplement to the existing IFQ program, because prior to the implementation of IFQs, the current migration of IFQs from Alaska's rural costal communities was not expected, and these communities were not protected by IFQ regulations.

Employment Loss

The halibut and sablefish IFQ program has resulted in substantial "harvesting sector" employment loss for residents of coastal communities. Although "decreases in total harvest-sector employment has been documented in some IFQ fisheries"[34] much of the evidence regarding Alaska's halibut and sablefish IFQ program is yet to be documented. "There is anecdotal evidence that fishermen have reduced crew size and that quota share holders are crewing for each other. However since there are few data on pre-IFQ crewing practices, it is difficult to determine the magnitude of changes or the opportunity costs of crew who are no longer in these fisheries."[35] Prior to IFQ's, in 1994, approximately 3800 vessels participated in the halibut fishery. Rural residents could easily find crew jobs on both local vessels and vessels from other ports. However, by 1998 only 2,239 vessels participated.[36]

The 40% decline in halibut vessels, with an average of 2 -3 crewpersons per vessel, represents a probable loss of between 3,000 and 5,000 crew jobs. In addition, reports indicate that many IFQ holders get together on a single vessel to fish their shares — without traditional crewmen. Also, since the pace of the fishery has slowed, some participating vessels have reduced the number of crewpersons they hire. "With a steadier, more evenly paced fishery it's tough for skippers to keep their big crews."[37] Loss of crew jobs has a disproportionately negative impact on

[34]P. 100, Sharing the Fish: Toward a National Policy on IFQs

[35] P. 77, Sharing the Fish: Toward a National Policy on IFQs.

[36]See, for example, Table 16-1 of CFEC's "Changes Under Alaska's Halibut IFQ Program, 1995-1998.

[37]P. 25, "Pacific Fishing", April 2000.

isolated rural communities because there is often limited employment[38] apart from fishing.[39]

It is important to note that the types of crew jobs have also changed. Prior to IFQs, Alaskan halibut and sablefish crewman tended to be more short term or temporary crew and fit halibut fishing into their year round fishing calender. Currently many halibut and sablefish crew jobs are more long term or full time "longlining" jobs generally tied to a single vessel or vessel owner. Consequently, a large portion of rural residents who worked as halibut\sablefish crewmen during pre-IFQ fisheries are unable to obligate for halibut and sablefish crew jobs that now conflict with salmon, herring, or winter fishery commitments. Despite the experiences of most halibut and sablefish crewman from smaller coastal communities, job loss hasn't been well documented. "The regional impacts of reductions in crew size are unknown because information on crew participation in the pre-IFQ fisheries, their residencies, demographics, and opportunity costs is limited and has not been compiled adequately."[40]

Processing Concerns

The IFQ program has reduced the amount of halibut and sablefish processed in several rural communities.[41] IFQ fishermen, without pre IFQ time restraints, often travel from remote areas to a favored port or choose the highest priced market for their fish. "There is anecdotal evidence that an increasing number of halibut fishermen are bypassing traditional processors and marketing directly to wholesalers and retailers, but the magnitude and impact of this phenomenon has not been documented. . . . .Iin the Canadian halibut fishery, implementation of IFQs resulted in a replacement of many of the larger, frozen produce processors..."[42] Remote processors in rural

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[38] Northern Economic's study regarding the unreliability of self employed employment statistics illustrates the problem with existing employment data. Informal surveys in Old Harbor indicate that crew jobs have declined by more than 1/2.

[39] See, for example Table 26 of UAA ISER report "Gulf of Alaska Coastal Communities: An Overview."

[40] P. 77, Sharing the Fish: Toward a National Policy on IFQs.

[41] As confirmed by Aleutions East Borough. See, for example, Table 14-2 of CFEC's "Changes Under Alaska's Halibut IFQ Program, 1995-1998.

[42] P. 77, Sharing the Fish: Toward a National Policy on IFQs

communities are often limited to processing and shipping frozen product. At least one community, Pelican, lost its processor, in large part, because of reduced opportunities to process frozen halibut.

Less locally processed halibut or sablefish results in fewer processing jobs for residents, declining community sales revenues as well as reduced raw fish tax income. Gunner Knapp stated this obvious fact in his 1997 ISER report, "Modeling Community Economic Impacts of the Alaska Halibut IFQ Program:" "[f]or processing workers or suppliers to the fishing industry, lower landings will almost always mean less income."[43] Decreased local sales and employment does not minimize the impact of the IFQ program on smaller Gulf of Alaska fisheries-dependant coastal communities.

Sharing the Fish recognized rural communities have proportionally more to lose when processing jobs and product moves elsewhere:

> The impact of IFQs on fishing communities is likely to be more or less stressful depending on how fishing and fishing-related activities are organized, the isolation of communities, and their ability to switch among fish species as stocks and ex-vessel values fluctuate. The members of some fishing communities derive significant income from work in processing plants located in their communities. The extent to which the impact of IFQ programs on processor-dependent communities can be mitigated ... merits serious discussion when IFQ programs are contemplated.[44]

"Modeling Community Economic Impacts of the Alaska Halibut IFQ Program" concluded much the same thing for both processing and crew jobs:

> Three changes in the halibut fishery which we examined in our model and which are primarily attributable to IFQ management had significant effects on the distribution of income from the halibut fishery between and within communities. First, the implementation of IFQ management shifted the distribution of ex-vessel value from crew, vessel owners and captains to IFQ holders. In practice, this represents a shift

[43]P 20, "Modeling Community Economic Impacts of the Alaska Halibut IFQ Program"

[44]P. 181, Sharing the Fish: Toward a National Policy on IFQs

in the distribution of ex-vessel value away from crew, since most IFQ holders are vessel owners and captains. Second, the IFQ program likely contributed to shifts in the distribution of landings between communities — although it is difficult to quantify how much of the shift in landings between 1994 and 1995 is attributable to IFQ management. Third, the shift from frozen to fresh processing of halibut reduced processing income in most communities.[45]

Population Declines

Fishermen and crewmen are leaving rural communities. Population declines are being experienced throughout the Gulf of Alaska. During the past four years, since the implementation of the IFQ program in 1995, Alaska's population has increased by 3.3%. However, the Gulf of Alaska's smaller community population has decreased by more than 1% and, if communities with less than 500 residents are considered, the decrease is approximately 4%.[46] Moreover, on Kodiak Island, the rural school population has declined 20%from 1995 to 1999,[47] and in one community, the school was closed. Again, these population trends are not exclusively due to the IFQ program. However, income loss resulting from the IFQ program certainly has contributed to existing population trends.

Current Community Impacts

Limited issuance of halibut and sablefish IFQ to residents of smaller coastal communities, the subsequent loss of harvesting and processing sector jobs, as well as the continuing transfer of quota share all contributed to an eroding economic base for Gulf of Alaska rural coastal

[45] P. 21, "Modeling Community Economic Impacts of the Alaska Halibut IFQ Program", February 1997, Gunner Knapp, Institute of Social and Economic Research.

[46] As provided by Department of Community and Economic Development, Division of Municipal and Regional Assistance

[47] As provided by Kodiak Island Borough School District

communities. Many fishermen and crewmembers have, for many years, relied on an economic "three legged stool" (salmon\herring, halibut\blackcod, and a winter fishery like crab or cod) to provide income and to pay for the expense of living in an isolated coastal community. With the reduction of halibut\blackcod fishing opportunities, as well as loss of winter crab fisheries and the decline in herring and salmon prices, this earning pattern is increasingly unstable and, for many rural fishermen, has all but collapsed. "The economic and social outcomes of the halibut and sablefish IFQ programs for dependent communities are largely anecdotal. Continued low prices for salmon have made halibut and sablefish catches increasingly important for regional fishing economies." [48]

Solutions:

Working Within the Existing IFQ Program

In Sharing the Fish, a wide range of non-buy in alternatives were reviewed by the NRC. These include issuing CDQs to Gulf Communities, annual "zero revenue" auctions of a portion of each IFQ holders shares, issuance of a second class of "community" shares, taxing or retaining a portion of quota shares upon transfer, a "drop through" system limiting shares in time and character, and a community set aside similar to the bycatch or sport fishery allocation. While several of these concepts may have merit, the NRC recommendation was that "(w)here an IFQ program already exists, councils should be permitted to authorize communities to purchase, hold, manage, and sell IFQ's.[49]" In other words, the NRC directive for existing IFQ programs was a "buy in" approach. The remainder of the discussion will focus on specific details regarding modification of the current halibut and sablefish IFQ programs to accommodate the community "buy in" concept. Following the discussion will be a draft of "Elements and Options for Analysis."

It is important to balance changes to the current IFQ program with the existing benefits from the program and to think in terms of program modifications rather than wholesale revisions. As the National Research Council's recommends, "(c)ouncils should proceed cautiously in

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[48] P.77, Sharing the Fish: Toward a National Policy on IFQ

[49] P.200, Sharing the Fish: Toward a National Policy on IFQs

changing existing programs, even to conform to the recommendations of this report"[50] Consequently, the GOAC[3] proposal attempts a cautious solution in balancing the existing program with identified problems or trends and the need to change. Additionally, a "buy in" proposal is much less disruptive to existing program participants. The goal of the GOAC[3] "buy in" proposal is to provide an opportunity for some Gulf of Alaska communities to affirm National Standard 8 and "(A) provide for the sustained participation of such communities. . ."[51] in IFQ managed fisheries.

Individual vs. Community Harvesting Privileges

From the outset, some have suggested that community ownership is unnecessary. Instead, improved loans and purchase opportunities for individuals resident in smaller coastal communities is their preferred solution. Problems associated with IFQs will be solved if more rural residents purchase and fish IFQs. The argument continues: the North Pacific loan program is available for IFQ purchase and, if taken advantage of, will cumulatively provide rural communities with jobs and an economic base. Or, in the alternative, communities could form Business Industrial Development Corporations (BIDCOs) to provide loans to community members. In fact, some have taken this thesis a step further and suggested that ANCSA corporations associated with rural communities or tribal entities in these communities function as financing institutions for the individual's purchase of IFQs.

We agree that improved loan programs may enable some individuals within rural communities to purchase IFQs. And, should this occur, it would help or contribute to the economic base of the community. Currently however, less than 25% of IFQ purchases are bank financed[52] and very few of the loans are for "new entrants" into the fishery.

Only a few fishermen have benefitted from the North Pacific Loan Program and applications for loans far exceed funds. In 1998 "from more than 1,000 applicants on a waiting

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[50]P.215, Sharing the Fish: Toward a National Policy on IFQs

[51] 16 U.S.C.1851, Sec. 201

[52]Table 6-2a of "Changes Under Alaska's Halibut IFQ Program, 1995 - 1998"

list", only 48 loans were approved.[53] Few, if any, of the approved loans were to residents from smaller coastal communities.[54] Ironically, current loans have contributed to the sale of quota share from smaller coastal communities.

The concept of regional Business Industrial Development Corporations parallels many of the objectives of the community ownership proposal. The corporation would obtain financing and from the "money pool" make loans to individuals for IFQ purchases. Repaid monies would provide funding for additional loans. The BIDCO would have a right of first refusal should the individual sell their quota shares. Again, there is some question as to individual qualifications for loans — would they be based on fishing history or available collateral? Would the BIDCO primarily advantage those in the community that already have IFQs or other collateral? Furthermore, the regional aspects of the BIDCO may serve to disproportionately distribute loans or capital within the region. Some rural residents also suggest that the BIDCO is another "western" financial concept focused on individual achievement and opportunity rather than the greater community good. Many rural communities stress that, historically, their culture approached fishing on more of a communal basis and that they would like to reinstate some aspects of the historical model.. Although the BIDCO concept could supplement to community fishing quota, by providing some individuals with personal quota shares, it would not replace the security of a community quota share endowment.

Many fishermen believe that individual purchase of quota share through loans or other financing is not currently a responsible economic decision. Initial issuants were economically advantaged and continue to inflate the market price of halibut and sablefish quota share beyond what would be justified by ex-vessel value, cost of investment capital and return on labor and investment. Currently, without a gifted capital "asset base" or "personal resources"[55] few IFQ purchases occur. Quota share in the $8.00 - $10.00 range per pound of halibut, with a large

[53] P. 26, "Pacific Fishing", April 2000

[54] As confirmed by RAM division, National Marine Fisheries Service

[55] Approximately 2/3 of IFQ purchasers list "personal resources" as their means of financing. See further chapter 6 of the CFEC's "Changes Under Alaska's Halibut IFQ Program, 1995-1998.

amount of purchase debt, wouldn't be a prudent investment for many small boat fishermen.[56] Perhaps this is why "new entrants" in the Gulf IFQ fisheries have only grown by about 2.5% in the last couple of years.[57]

ANCSA corporations face several barriers to financing individual purchases of IFQ. First, ANCSA corporations have a fiduciary duty to manage corporate assets for the good of all the shareholders, not just a select class of shareholders who may receive benefit from their individual loan for quota share purchases. Second, prudent corporate management with ANCSA "for profit" corporations seeks a reasonable return on investment while limiting or controlling risk. As already illustrated, loans for quota share would not qualify as low or even medium risk. Third, in many of Alaska's coastal communities less than half of the residents are ANCSA corporation stockholders — particularly those under the age of 28. Consequently, ANCSA corporation loans to

[56]Although the variables in fishing make a definitive model difficult, assume, for illustration purposes, that a fisherman purchases 50,000# of IFQ at $8.00 per pound with an 8% loan and 20% down. This fisherman will probably make a couple of trips over a two or more week period to catch his fish and, with current prices, his gross return could be approximately $100,000. After paying his crew @ 27%, paying @ 12% for food and bait and giving the boat and skipper @50% — for labor, insurance and part of the boat mortgage, (See ISER "Modeling Community Economic Impacts of the Alaska Halibut IFQ Program" — table 14 for these numbers) only 11% of gross, or $11,000 is available for interest and loan payment on a $300,000 loan. If the skipper, boat owner and IFQ holder are all the same person, this is still only $61,000 to pay @$30,000 in loan and interest payments as well as boat payments, insurance and a portion of yearly living expenses. With quota falling in some areas by as much as 25% (area h 3A for the 2000 season) and ex-vessel prices fluctuating by as much as 50%(as between 1997 & 1998) it is unlikely that the risks justify the investment?

Another approach to illustrate that quota share prices are above prices justified strictly by the exvessel value is a internal rate of return analysis. The Internal Rate of Return (IRR) is calculated by dividing the expected revenue from the investment by the desired return. In the case of halibut and sablefish IFQ's, a rough approximation of the IRR is determined by taking one half of the exvessel rate and dividing it by a moderately conservative rate of return of 15%. This assumes roughly 50% of the revenue from the sale of the fish is due to the IFQ holder-the access to the fishery that IFQ's provide is worth 50% of the ex-vessel price. The 50% ex-vessel figure is determined by looking at the leasing rate of A-shares. The 15% return is considered a standard rate of return. A higher rate of return (e.g., 20%) means the investor wants a higher return from the investment and wants to take less risk. A lower rate of return (e.g., 10%) means the investor will accept a lower return from the investment and take greater risk. Example: Assuming halibut will sell for an average of $2.00 per pound in the next few years and an investor takes a moderate risk and expects a 15% return on the investment, the IRR for a share of halibut IFQ would be $1.00 (1/2 the exvessel price) divided by .15 (15%) or $6.66 per share. If halibut exvessel prices go up, the price per quota share will be higher. If the investor is willing to get less back on the investment (10% return) then the price per quota share he or she is willing to offer is higher.

[57] Table 13-1b, p. 177, "Changes Under Alaska's Halibut IFQ Program, 1995 - 1998 shows that crewman "new" to IFQs in area 3B increased by 2.9% from 1996-97 and by 2.7% from 1997-98, for area 3A new crewmen increased by 2.3% from 1996-97 and by 2.5% from 1997-98 and for area 3B new crewman increased by 2.8% from 1996-97 and 1.8% from 1997-98.

shareholders would create a closed class within the larger community. Finally, foreclosure on ANCSA shareholder IFQ by the ANCSA corporation would prove very difficult. Thus it is questionable whether or not the corporation would actually have security for its loan.

Merits of Community Ownership

Empowering rural residents, through loans, BIDCOs or alternative financing, to own quota share does not address many of the goals established for community fishing quotas. First, the individual IFQ owner can leave the community and take the quota share as well as the crew jobs with him. In contrast, community ownership would provide an opportunity, perhaps in perpetuity, for communities to access halibut and sablefish --- something like a natural resource endowment for the community. Second, the individual IFQ owner is subject to different economic restraints and may need to sell quota share because of short term economic needs whereas the community can make a public policy decision to reduce or eliminate expected return on capital and view the IFQ as a long term investment. Third, the individual IFQ holder often focuses on maximizing personal economic gain while community ownership could focus on maximizing economic benefit to a number of community residents. Fourth, the individual is constrained by both vessel length restrictions and the block program. Community ownership may ease some of these restrictions and provide alternative fishing opportunities that make more sense for start-up or multi-species fishermen and the community. Fifth, the individual is limited to existing fishing formats whereas the community may provide additional fishing options.[58]

Importantly, community ownership could provide educational or instructional opportunities not possible with individual ownership. Community quota share could be transferred to a community fisherman with specific requirements that the fisherman employ one or more crewmen under a certain age with the express purpose of teaching halibut or sablefish fishing skills. Another approach would be for a community chartered vessel to serve as a “training vessel” for fishing a

[58]For example, a concept suggested by Steve Langdon, Department of Anthropology, University of Alaska, Anchorage, in a paper entitled, “Creating a Community Fisheries Program: What it Could Look Like” September 16, 1999, suggested a 25,000# open to entry fishery for community residents with vessels under 20 feet that could encourage young people to continue traditional halibut fishing methods by fishing from skiff and learn basic boating and fishing skills. Participants would register before hand and the ownership entity would account for individual catches.

portion of the community IFQs. Also, a portion of the earnings from the transfer of community IFQs could be reserved for educational endeavors such as Coast Guard licensing and safety classes.

Community fishing quotas would provide economic and scheduling stability within the smaller community fishing fleet --- just as it has done for many IFQ owners residing outside rural Gulf of Alaska communities. Community fishermen selected for the transfer of IFQs could plan on a specific income from halibut fishing and plan their other fishing endeavors around the annual transfer of a specific quota amount. Also, crewpersons could plan on a given number of local halibut and sablefish jobs to be available and the approximate time commitment for those jobs. Individual ownership does not provide similar stability for the community.

Finally, community economic development through small scale secondary processing can both increase ex-vessel value and provide economic benefit to smaller communities by creating two "bites at the apple." Income from the catching of the product and income from the products' processing would both contribute to the local economy. Several rural communities have idle or underutilized processing plants. On Kodiak Island for example, out of six communities, Larsen Bay, for most of the year, has an idle processing plant, Ouzinkie has a vacant smoking facility and Port Lions and Old Harbor are actively pursing local processing capability. Individual IFQ owners, necessarily focused on personal or family economic needs, will not provide secondary community economic benefits from local processing. Moreover, individuals may not be able to "guarantee" the necessary "flow" of product to these small scale processing endeavors.

Eligible Communities[59]

It is difficult to catagorize the subset of Gulf of Alaska communities that has been harmed by the IFQ program and which would benefit from community fishing quota. The existing data sets define a class of smaller coastal communities in several ways. CFEC, in its November 1999 report, "Changes Under Alaska's Halibut IFQ Program, 1995-1998," used designations of "urban" and "rural" based on 1990 census information for communities under 2,000 residents to

[59]First issue in NPFMC's February motion directing the creation of a "study paper".

differentiate their data but included several "CDQ" communities in the Western Gulf. However, in the 1998 report entitled "Holdings of Limited Entry Permits, Sablefish Quota Shares and Halibut Quota Shares through 1997 and Data on Fishery Gross Earnings," CFEC used designations of "smaller and "larger" and included several communities with populations over 2,000 residents. Another subset of communities was included in the Institute of Social and Economic Research's "Gulf of Alaska Coastal Communities: an Overview," but this document left out several smaller communities in Southeast Alaska. In our view, a set of four indices--- coastal, fisheries dependant, isolated, and under 2,500 residents---leads to a class of communities that have experienced and are experiencing problems associated with the IFQ program.

Gulf of Alaska Communities negatively impacted by the introduction of IFQs are primarily "coastal" communities. These communities, located on salt water, were most often founded in a specific place because of access to marine resources and, over time, became economically dependant on those fishery resources available to community residents. These "fisheries dependant coastal communities" are a subset of the "fishing communities" considered in Magnuson/Stevens and are repeatedly referenced in <u>Sharing the Fish</u>:

> Many coastal communities are made up of multiple generations of families engaged in fishing. For others, there is significant movement of individuals into and out of the fishery over time so that even though there s a relatively constant presence of fishermen in the community, different people and families are represented over time. Coastal communities sometimes offer only limited alternative employment opportunities for displaced fishermen and fishing industry workers.

Qualifying fisheries-dependant communities should establish reliance on fisheries for non-governmental income[60] and demonstrate loss of "fishing power" in the reduction of community based IFQ.

After "coastal" and "fisheries dependant," a third criteria is "remoteness." Coastal

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[60]See for example, Figure 4 on page 19, "Gulf of Alaska Communities, An Overview" but note, as illustrated by Marcus Hartley, Northern Economics, during his April 2000 NPFMC presentation, accurate fishermen and fisheries related employment numbers are difficult to obtain.

communities located beyond the road system tend to have fewer alternative industries or employment opportunities and therefore are more dependant on fisheries. Many of these communities work hard to provide harbors and shore side support for their fishermen and, if possible, to maintain or attract a local processor. The remoteness of these communities, in days when there was a "race for halibut or sablefish," could be an advantage, and they often provided logistical support or markets to the halibut fleet. However, with IFQ's and the reduction of time restraints, fishermen are finding markets closer to transportation hubs or supply centers. In the "new" halibut and sablefish fisheries, remoteness is a distinct disadvantage.

Finally, communities qualifying for the purchase and retention of halibut and sablefish IFQ should be differentiated by size. A look at the CFEC reports indicates that communities with populations of more than 2,500 people have generally gained quota share[61] while communities of less than 2500 residents have universally lost quota share.[62] This trend is consistent with the observations of the NRC in Sharing the Fish:

> Freely transferable quota shares may concentrate over time in some communities while other communities lose part or all of their quota.... one may expect communities with a large share of quota to gain more because of more infrastructure and better access to capital. Some smaller communities dependent on fisheries and without alternative means of support are likely to suffer severe unemployment and related social and economic problems.[63]

With the four criteria of coastal, fisheries-dependant, remoteness, and size, a defined set of qualifying communities would include: Sand Point, Perryville, King Cove, Ivanoff Bay, Chignik[64], Akhiok, Karluk, Larsen Bay, Old Harbor, Ouzinkie, Port Lions, Halibut Cove, Toyonek, Nanwalek, Port Graham, Seldovia, Chenega Bay, Tatitlek, Yakatat, Angoon, Craig, Coffman

[61] Larger Gulf of Alaska communities of more than 2,500 residents gaining quota share include Cordova, Homer, Ketchikan, Kodiak, Juneau, Petersburg, Sitka and Wrangel.

[62] Smaller Gulf of Alaska communities of less than 2,500 residents have all lost quota share with the exception of Elfin Cove.

[63] P. 166, "Sharing the Fish: Toward a national Policy on IFQ"

[64] Chignik would include the communities of Chignik Lagoon & Chinik Lake

Cove, Edna Bay, Elfin Cove, Gusstavus, Hollis, Hoonah, Hydaburg, , Kake, Kassan, Klawok, Metlakatla, Meyers Chuck, Pelican, Point Baker, Port Alexander, Port Protection, Tenakee Springs, Thorne Bay, and Whale Pass. Six of these communities are located in halibut management area 3B, twelve communities are located in halibut management area 3A, and twenty-two communities are located in halibut management area 2C.

Appropriate Ownership Entity Within the Qualifying Community

When talking about "community" ownership of halibut and sablefish quota share, a specific entity within the community must be designated as the "eligible transferee." If possible, because of the size of many communities, existing governing structures such as municipalities, tribal councils, or ANCSA corporations should be considered. However, each of the existing governing structures is unlikely to provide a good "fit" for the proposed halibut and sablefish IFQ "buy in" program. Consequently, a newly created or existing non-profit community entity should be considered.

Municipal governments are not a good "fit" because they do not exist in many smaller coastal communities. Therefore, in these communities, another ownership entity would have to be considered anyway. In addition, for those communities with municipal governments, some are second class cities and others are home rule cities. Because of these designations, substantially different governing responsibilities are required and each governing form would undoubtedly approach purchase and transfer of IFQs differently. Third, much of the support for community IFQ assumes that the focus of the program is to pass a substantial portion of harvest value to the fishermen and crewmembers who participate in the fishery. If municipal governments were the ownership entity, there is industry concern (fishermen and crewmembers) that quota share earnings would primarily benefit municipal government. Finally, municipal governments are focused on a host of issues and priorities — only a few of which may be fisheries related.

Similar deficiencies exist for tribal entities and ANCSA corporations. Many native leaders face a host of issues and may not be able to focus on administration of community quota shares. Also, there may be a temptation to fund the larger organizational expenses from the community quota share program. In addition, neither ANCSA corporations or tribal entities are inclusive of all community residents. Community ownership of quota share is intended to benefit all of the residents of the community --- or at least to provide all the residents of the community an equal opportunity to derive benefit from community fishing shares. Both tribal governments and ANCSA corporations restrict membership to a closed class, only a part of which may live in the community. Consequently, if IFQ's were administered by either entity, there would be a subset of community residents that would be, or at lest feel, excluded from possible benefit.

A "new" community entity for purchase and management of halibut and sablefish IFQs would need to provide for participation by all community residents and consist of individuals knowledgeable about fishing and interested in the community's use and management of quota share. Non-profit economic development corporations or fisherman's organizations are probable options. These entities could focus interested persons on a specific mission — that of managing community fishing quota. It would be inclusive of all community residents, providing input opportunities to all fishermen in the community: subsistence, commercial, and sport fishermen. Board members of the managing entity would need to be democratically elected with staggered terms and term limits. Moreover, the entity would be limited to a specific percentage of the ex-vessel value of the IFQ, perhaps no more than 25%, for debt service and administrative costs. Again, the focus of the program is to pass much of the value from fishing community quota share onto fishermen and crewmen in the community.

Some have suggested an aggregation of communities parallel to the "CDQ groups" as the preferred ownership entity. Although this approach would have some administrative efficiencies, it assumes common funding sources for all communities and "equality" in the distribution of benefits within the group. A "buy in" program is substantively different than the CDQs "gifting" of capital. With the CDQ program the "capital" was a given and the "group" focus was on market share and distribution. In contrast, with the "buy in" program, it is probable that each community will access funding sources in different ways. Some communities may seek funding through existing loan programs, others may pursue resources available for rural or economic development, and a third source of funding could be through foundation grants. Because of these unique funding sources, each community will be interested in tying IFQ ownership to its initiative in finding capital to purchase quota share. In other words, the purchase of quota share requires a "bottom up" approach rather than the CDQ "top down" model. Perhaps, once communities have a comfort level with their purchase of quota, they may voluntarily form groups with contractual arrangements for administrative efficiency. Aggregation of individual communities should be encouraged but would need approval from the oversight entity and justification within the community's business plan.

Administratively, a qualifying community interested in the purchase of quota shares would proceed as follows:

1. Create a community non-profit economic development or fishermen' entity and democratically elect a board of directors;
2. Apply for non-profit status;
3. Submit an application to NMFS requesting recognition as an eligible "person" qualifying for the purchase of IFQs;
4. After NMFS's eligibility determination, identify funding sources;
5. Enter into marketplace to purchase quota share — subject to restrictions of program;
6. If desired, develop contractual arrangements with groups of communities for the administration of the individual community's quota shares.

Ownership Caps

Community Cap

Current IFQ holders are justifiably concerned that a relatively large number of small communities could, if not limited by ownership caps, purchase sizeable percentages of available halibut and blackcod quota shares. Current ownership caps were instituted to address similar concerns about larger quota share recipients when the IFQ program was designed. Theoretically, under current ownership caps, 100 persons (individual or qualifying company or corporation) could own all of the unblocked 2C halibut quota shares and 100 blocks of 2C halibut quota and 200 persons could hold all of the combined 3A & 3B unblocked halibut quota shares and 100 blocks of quota share in each of areas 3A and 3B. Current ownership caps serve as a benchmark for considering community ownership concerns.

Community ownership caps are difficult to prescribe because of differences in community size, alternative fisheries or employment, proximity to available resources and harvest ability. In addition, resource fluctuations in halibut and sablefish management areas as well as unequal numbers of qualifying communities in each area entangle the ownership issue. After considerable discussion and difficulty in establishing a formula for allocating quota between communities, it is thought that each community should be put on an even footing with current individual quota share holders — ie. 1% of 2C or .5% of the combined 2C, 3A and 3B Quota Share Pool (QSPs) and 1% of all QSPs for sablefish. Criteria of size, economic need, geography, and harvest ability were not applied when determining individual "person" ownership caps and it is equitable to also establish community ownership caps outside of these considerations.

Cumulative Cap

A second aspect of ownership caps is a cumulative cap for the community purchase program. Community entities, entering into the IFQ market several years after the initial issuance of shares, will face significant economic obstacles in the acquisition of quota shares and will be limited to those shares that current IFQ holders are willing to sell. It is not expected that large amounts of capital will immediately become available for quota share purchases. Moreover, it is improbable that all qualifying communities will choose to invest in IFQs and it is even less probable that all the communities that do invest will purchase shares up to their cap. In short, existing economic barriers will be self-limiting for the community purchase program.

Nevertheless, fishermen with quota shares in area 2C for halibut and "southeast" for sablefish recognize that about half of the qualifying smaller fisheries-dependant coastal communities are in these areas, and some stakeholders voice concern about the remote possibility that approximately 20 communities may purchase their 1% individual limit exclusively from Area 2C. Reduced quotas for 2C communities or purchase requirements outside 2C have been suggested. Both approaches would disadvantage 2C communities vis-a-vis other coastal communities and individual IFQ purchasers. Moreover, because of biomass restraints, addition limitations on the 2C communities may preclude the "critical mass" needed for an effective program. For example, with the 2000 quota of 8,400,000# for area 2C, each qualifying community, at the 1% ownership cap, would be limited to 84,000 pounds---not an excessive amount for developing community-based fisheries.[65]

Since one goal of the community fishery quota initiative is to encourage community participation in the harvest of halibut and sablefish in proximity to the community, purchase restrictions by geography may make more sense than overall ownership caps. Some have suggested that communities should be restricted to quota share purchases for the management area in which they were located.[66] Although it is probable that communities will first look for quota share close to home, this approach is somewhat restrictive in taking advantage of market trends in various areas and may preclude communities located close to boundary lines, like Akhiok and Yakatat, from fishing in areas where they have historically fished. In addition, because of significant differences in the amount of shares in each vessel class category in each area, communities limited to a single area and wanting to fish quota on vessel sizes already in the community may be substantially restricted in their quota share purchase options. Consequently, the better approach is to restrict communities to the purchase of quota share in the management area of their location and an adjacent management area but restrict communities located out of area 2C (for halibut) and "southeast" (for sablefish) from purchasing shares in these areas.[67]

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[65]Note for comparison, in the Canadian West Coast Groundfish Trawl Fishery "20% of the annual groundfish trawl TAC is set aside and managed by the Groundfish Development Authority, which is made up of representatives from coastal communities and fishermen's unions" P.182, Sharing the Fish: Toward a National Policy on IFQs

[66]Note: With the individual limit cap defined as .5% of the combined total halibut quota of areas 3A, 3B and 2C and an area specific purchase limitation, the community area cap will change annually. Given the present list of qualifying communities and 2000 halibut quota ratios, this approach would essentially cap community participation in area 3B at 8.3%, 3A at 13.67% and area 2C at 22%.

[67]Communities located in area 2C could purchase halibut quota shares in 2C and 3A and sablefish shares in "Southeast" and "West Yakatat". Communities located in area 3A could purchase halibut quota shares in 3A and 3B and sablefish shares in "West Yakatat" and the "Central Gulf". Communities located in area 3B could purchase halibut shares in 3B and 3A and sablefish shares in the "Western Gulf" and "Central Gulf". This approach would probably move some 2C purchases to 3A and reduce the possible impact on 2C.

Purchase, Sale and Use Restrictions

Purchase Restrictions

Purchase questions focus on the “type” of quota share communities can hold as well as concerns about disruption of the quota share market. Current IFQ regulations restrict individual fisherman to two “blocks” of quota within a given management area; however, a person with two blocks cannot hold unblocked quota share within the same management area.[68] Blocks were created if persons receiving their initial allocation of quota share, based on the 1994 Total Allowable Catches (TACs), received less than 20,000 pounds of halibut and sablefish. As of the end of 1988, 70.8% of halibut quota share in Area 2C, 35.4% of the halibut quota share in area 3A and 66% of the halibut quota share in area 3B was blocked. In addition, 14.8% of the blackcod quota share in Southeast, 12.8 of the blackcod quota share in W. Yakutat, 8.0% of the blackcod quota share in the Central Gulf and 20.1 of the blackcod quota share in the Western Gulf is blocked.[69] Blocks cannot be reduced or broken up by sale or transfer.

Two conclusions are apparent from the amount of halibut that is blocked, particularly in areas 2C and 3A. First, if communities are to provide for their “sustained participation”[70] in the fishery, they must be allowed to purchase blocked as well as unblocked shares and second, they cannot be restricted to two blocks. It is important to note that the intent of blocked shares — limiting consolidation — will not be undermined if communities are exempt from the blocked\unblocked restrictions. In halibut area 2C for example, in the most unlikely circumstance of all qualified communities purchasing up to their 1% ownership cap exclusively from blocked shares in area 2C, the total number of blocked shares in the area available to individuals would still

[68] P. 8, Executive Summary, CFEC, “Changes Under Alaska’s Halibut IFQ Program, 1995-1998".

[69] Chapter 7, “Changes under Alaska’s Halibut and Sablefish IFQ program, 1995 to 1998"

[70] 16 U.S.C. 1851, Sec. 201, Magnuson-Stevens Fishery Conservation and Management Act

be above 50%. Moreover, most, if not all, qualifying small coastal communities are going to have their halibut shares fished by local residents with smaller vessels and individual use limitations (blocking within the community ownership)— the very people the blocking idea was intended to protect.

Nevertheless, if "blocking" restrictions are deemed necessary, the regulations should not be more restrictive than to limit communities to the current ratio between blocked and unblocked shares in each area. For example, in Area 3A a qualifying coastal community would be able to purchase shares up to the .5% individual ownership cap, but their blocked shares could not be more than 35.4% of the total quota shares held for that area. This approach encourages communities to engage in purchase activity in both the blocked and unblocked sectors of the quota share market and maintains the current balance between the two ownership categorizes. However, it will make it more difficult for communities to become full participants in the IFQ program and it would be administratively difficult. Given the difficulties of buying quota several years after the start of the program, limitations on blocked ownership is un-necessary.

The second aspect of purchase restrictions is disruption in the IFQ market. Some stakeholders are concerned that communities will rapidly enter the market place and disrupt the current balance between available biomass and quota share price. They suggest that communities be limited by allowing a fixed amount of quota share to be purchased on an annual basis. Again, these concerns overlook the limitations communities have on finding capital for investing in IFQs and also downplay the fact that disruption of the market place by bidding up IFQs would not be in the communities' best interest. Moreover, they don't account for the expected disruption caused by large increases in available capital to the North Pacific Loan Program. Market disruption questions further assume that the current price paid for quota share is based primarily on the ex-vessel value and annual fishing quotas, rather than the leveraging impact of gifted capital as well as funding sources outside the fishery. Again, with the individual ownership caps, the magnitude of community purchase will be restrained and purchase restrictions are unnecessary.

We already have an excellent illustration of the impact of a 20-25% change in the fishery. The difference between the 1999 and 2000 halibut quota for area 3A was approximately 25%.

Nevertheless the average price of 3A blocked 10,000# & above quota share has only declined approximately 10%. Ex-vessel prices between 1997 and 1998 plunged by as much as 50%, and yet, the price of 3A blocked 10,000# and above quota share only declined, on average, by about 20 % and quickly recovered when prices started to rise[71]. These illustrations indicate that many economic factors affect quota share prices and single events, such as the entrance of new purchasers into the market place, may well be offset by other market factors.

Use Restrictions

Current IFQ regulations define quota share by four vessel categories:30 ft. and under, 30-60 ft., above 60 ft., and freezer\processor. Quota can be "fished down" on a smaller vessel but quota from a smaller vessel designation cannot be "fished up" on a larger vessel.[72] One goal of the community ownership concept is to utilize fishermen and vessels already available in qualifying communities. If communities were limited by vessel size restrictions they could be eliminated from purchasing vessel classes not resident in the community or forced to go outside the community to find the legal size vessels. Vessel size restrictions would also inhibit flexibility within communities to have a "blocked" or "unblocked" quota fished between several local residents with different size vessels.

In addition, vessel size restrictions create inequity between communities depending on location. For example, in area 2C there is much more medium and small vessel quota share available than in area 3B. Since vessels under 60 ft. are most common in rural communities, communities in 2C will have a much easier time accessing quota share fishable by local vessels in proximity to their communities than will communities in area 3B. In short, there is no compelling reason to restrict communities' use of quota share by vessel length.

[71]See, for example, "Pacific Fishing" market price quotes.

[72]Less than 30 ft. vessel class: 2C - 15.3%, 3A - 7.0% and 3B - 3.1% of the available halibut quota. 30-60 vessel class: 2C - 78.1%, 3A - 53.5% and 3B - 38.3% of the total available halibut quota. 60+ft. vessel class: 2C - 4.5%, 3A - 37.0% and 3B - 55.6% of the total available halibut quota. The remaining quota is allocated to the freezer\processor vessel class.

Allocations Within Communities

Additional use restrictions should balance the communities' desire to independently manage its ownership interests in quota share with accountability for use of a public resource. Many questions have been raised regarding just how the community fishing quotas will work within the community. Most of these questions are best resolved apart from regulations on a community by community basis. Nevertheless, some program criteria should be considered for determining "who" within a community qualifies to fish community IFQs and what type of relationship will exist between the community IFQ owner and the fisher.

Selection criteria should include the following: first, community residents[73] exclusively employing crewmembers who are also community residents; second, community residents employing a crew that is 50% or more community residents; third, non-residents employing a crew that is 50% or more community residents; fourth, residents employing a crew of at least one community resident; finally, non-residents employing a crew of at least one community resident. In addition, non-residents from qualifying communities would have a priority, or right of first refusal, over non-residents from larger, non-qualifying communities. The community could not transfer quota to a non-resident fisherman who did not employ at least one community resident. This hierarchy limits eligible participants to those fishermen that will provide income to at least one community resident. If two or more fishermen fit into the same tier of the allocation criteria, each community can develop secondary criteria for quota share allocations.

Individual Use Cap

Community IFQ purchase regulations should also restrict the amount of quota share any one transferee would be allowed to fish. This would be an "individual use cap." The use cap should be inclusive of both quota shares obtained from the community and quota shares the individual owns. Persons with large amounts of personal quota share should not compete with disenfranchised community fishermen for limited available quota. In many ways the individual use cap would serve the same purpose for the community purchase program that the block system does

[73] As defined by the criteria used by the Permanent Fund to determine State residency.

for the larger halibut and sablefish fishery. A range of individual use caps from 25,000# to 75,000# should be considered.

Limits on individual participation in community fishing quotas have also been suggested. Some believe that a transferee should only be able to have quota transferred for a specific number of years. After the specified time, the fisherman would be expected to purchase private quota shares. While this may be a goal for some individuals, it does not further community goals. It doesn't matter to the community whether or not the individual shareholder eventually purchases private quota. What matters most is to have someone from the community hiring local fishermen to fish the community IFQs. In small communities, use limits could quickly eliminate eligible transferees.

Transfer Restrictions

The community ownership entity will remain the registered owner and holder of the IFQ. Annually, the community entity would notify NMFS of the "assignment" of its share to specific individuals. NMFS will then issue a harvest card to the specified individuals for the specified. This is not a lease and does not provide any attachable ownership interest[74] in the quota shares nor can the transferee fish his shares in whatever manner he chooses. Rather, as part of the transfer agreement\contract, the community will specify the terms of the transfer: requiring information on community residency, fishing pattern, delivery port, and perhaps other criteria beneficial to the community. Moreover, payment for product would flow to the ownership entity. The transferee would be paid according to the terms of the contract and the ownership entity would pay the 3% resource fee. The transferee would be subject to the current owner on board restrictions.

Sale Restrictions

If communities are exempt from block and vessel length restrictions, several questions arise regarding the character of shares upon sale. Some stakeholders would like communities to buy "blocked" quota and, upon resale, sell it as unblocked. Others would prefer the opposite approach with communities limited to selling quota as "blocked." Another approach would be to reclassify quota purchased by communities as "community quota" and restrict its resale to other qualified

[74] It is important, for IRS purposes, that the fisherman not have any ownership interest in the quota shares.

communities. A better approach, less disruptive to the current IFQ program, would require communities to sell their quota share with the same designations and restrictions as when the quota shares were purchased. As a further refinement, with the blocks of quota share in 3B becoming larger than most anticipated when IFQs were implemented, communities could be allowed to purchase 3B quota shares and, upon resale, split the blocks in half. On the other hand, if communities are subject to current block and vessel length restrictions they should be treated like other qualifying "persons" and shouldn't be further restrictions in their sale of IFQs.

Codes of Conduct

At the outset, codes of conduct setting parameters for the community's relationship with the transferee should be established. The purpose of the program is to maximize the economic benefit to resident fishers. Nevertheless, administrative costs and debt service must be acknowledged. Crew shares for crewman employed in fishing community quota should be set at the high end of industry standards,[75] and no more than 25% of the ex-vessel value of the product should be retained for debt service and administrative expense.

The code of conduct should also include environmental and resource protections. The community transferee should be required to fish as "clean" as is practical without the use of crucifers and with seabird avoidance devices. Bycatch should be avoided. In addition, the transferee should be required to fish away from environmentally sensitive areas or habitat areas of particular concern. Conformity to these standards should be part of any review process for a community's continued participation in the community ownership program.

Administration and Oversight

Administration of community IFQ requires a qualifying\ approval process and annual oversight of the program. At the outset, it is important to note that the administration of a "buy in" program is substantively less entangled than the current CDQ system where quota share is allocated to the State of Alaska and then distributed, in changing ratios, to the five CDQ groups. With the current "buy in" proposal, once a community is approved as an eligible or qualifying

[75] Table 14, ISER, "Modeling Community Economic Impacts of Alaska Halibut IFQ Program"

community and enters the market place to buy quota, little additional oversight may be needed.

Qualifying communities would be required to file an application including a business plan verifying that the community fits within a prescribed set of criteria. The criteria should include an approved non-profit ownership entity, open and democratic elections for board members, individual board members term limits, a feasible business plan, acceptance of codes of conduct, and environmental safeguards. Because RAM division of NMFS currently qualifies "persons" to purchase and hold IFQs, NMFS would be the logical agency to approve the community's application.

Once a community is qualified to purchase and hold IFQ, most of the oversight function would be part of NMFS normal review of transfer and fishing information. Community ownership and individual use caps can easily be enforced when a transfer is requested and reporting requirements regarding landing the fish would remain the same. Some issues, such as the criteria for transfer of quota within the community and violations of the contractual code of conduct, may continue to be of concern however non-profit corporations are already regulated by statute and traditional remedies would apply. Each participating community, by January 1 of each year should be required to file an annual report to NMFS and the State of Alaska, Department of Commerce and Economic Development.

The annual report should include an annual financial statement, a current budget, a financial list of quota share transferees, the amount of quota transferred, and the use of quota share within community. Failure to file the annual report would result in immediate suspension of quota share transfer rights. If the annual report showed serious discrepancies, the state could then intervene on behalf of the residents of the community and request NMFS to suspend transfer of quota share until the issues are resolved. Again, individual community members are allowed to pursue existing private remedies.

Sunset Provisions

Since this is a new program, some have suggested that the enabling regulations be of limited duration. This is an optimistic perspective anticipating that community fishing quotas will alter existing resource trends for small coastal communities and that the program will no longer be needed. Unfortunately, it is impossible to predict just when, or if, the program will no longer be needed. Time limitations could easily restrict the viability of the program as they will surely inhibit communities' ability to find long term investment capital and to realize their goal of a community IFQ endowment for future generations. Granted, over the years, changes may need to be made in how communities participate; however, these changes can be made through the current regulatory process — just as changes to the original program have been made over the past five years.

Other Issues as Related and Appropriate

Crewmember Concerns

Some have suggested that allowing Gulf of Alaska rural coastal communities to purchase halibut and sablefish IFQs will inhibit current crewmembers from purchasing quota share. As mentioned earlier, community investment in IFQ's may or may not impact the market price of IFQs. Other market factors — ex vessel value and harvestable quota — are more likely to restrict crewman purchases. Moreover, active crewmen have had the past five years to "buy in" to the IFQ program. In fact, approximately 850 "IFQ crew members"[76] have invested in quota share since the program was initiated. In addition, many skippers have enabled crewmen to purchase IFQs by co-signing loans and going so far as to use their own gifted quota shares as security for crewman purchases. [77] Several crewman have concluded that it makes economic sense for them to fish their IFQs on the skippers vessel ("more fish on board means more income for everyone"[78]) and some skippers have sold quota share to their crew, saying, "[t]hey are the ones that should end up with the stuff". Recent articles indicate that the better skippers are already taking care of their crews and encouraging crew access.

[76]NMFS term including all persons who did not qualify for initial quota share.

[77]See, for example, p. 24-25, "Buying In", Pacific Fishing, April 2000.

[78]p. 25, "Buying In", Pacific Fishing, April 2000.

Community ownership of IFQs is another way to enable crewman to fish and eventually purchase halibut and sablefish quota shares. The program is designed to assist rural fishermen who generally fish several species throughout the year. Currently, many of those advocating for "crewman" opportunities are supporting a subset of crewmen — those who are "lifers" and would make good credit risks through traditional financing. Gulf of Alaska coastal communities applaud these efforts. However, rural crewman have also been disenfranchised by IFQs, and community ownership is a possible means to reconnect this set of crewmen to the halibut and sablefish fisheries. Rural crewman should not continue to be disadvantaged so that crewman working for large IFQ holders can "inherit" the fishery.[79]

The North Pacific Loan Program may create significant opportunities for crewmen fortunate enough to land one of the dwindling IFQ fishing jobs, and it could create a huge economic barrier for communities wishing to participate in the IFQ program. Under current regulations, 3% of the 2000 exvessel value of halibut and sablefish landings will be assessed for IFQ program expenses and enforcement. Of the 3% money, up to 25% can be appropriated by congress the federal loan guarantee program. In the past, the loan guarantee program has been able to fund the North Pacific Loan Program with approximately 50 times the appropriated amounts. Given projected 2000 quotas and ex-vessel values, the loan appropriation could exceed $1,000,000 and funding available for loans to fishing crewman could exceed $50,000,000. The loan terms have been 20% down, 5%-6% interest on a 20 year payment schedule.[80] This amount of money with below-market loan terms will distort IFQ values and limit community participation. Rather than crewmen worrying about the impacts of communities entering the IFQ market, communities have a much larger concern about the impacts of the North Pacific Loan Program and how crewmen may limit community participation in a distorted quota share market.

Investment Limitations

The "non-profit" status of community ownership entities necessarily restricts use of IFQ

[79]p. 59, "Buying In", Pacific Fishing, April 2000.

[80]As confirmed by RAM division, National Marine Fisheries Service

generated income, and it is expected that any excess capital will be reinvested in the program or in fisheries related community development.   With a "buy in" program, communities have invested their capital in IFQ's, and subject to the code of conduct, should be able to freely allocate any return on their investment. Moreover, restrictions on use of revenue requires substantial additional oversight and administrative expense for the program. The GOAC[3] proposal is intended as a modification of the current IFQ proposal — not an entirely new construct requiring large amounts of additional administrative review.

Conclusion

Community purchase of IFQs is an important modification for the current halibut and sablefish IFQ programs. This program will establish that IFQ programs are elastic and can be fine tuned in response to problems or inequities. Inclusion of community ownership in the IFQ program will also strengthen coastal communities. As outlined in Sharing the Fish: Toward a National Policy on IFQs ,

> (c)ommunity-based governing structures possess several advantages over central government management an market-based management. First, community-based governing structures are based on local norms, values, and information and are matched to the situation. Government officials rarely, if ever, have access to the type of information that would allow them to design appropriate governance structures, unless they sponsor research that provides the necessary information. Second, community-based governing structures maintain the community and its norms of fairness. The interests of central government and the values of market-based approaches do not routinely give a high priority to the value of maintaining a community as such, nor are they likely to reflect a community's interests and values, although regulated market-based systems such as IFQs can be designed to do so. Third, monitoring and enforcement may be less troublesome and costly with a community-based system. Individuals who devise rules by which they will be governed are more likely to follow them and monitor others for compliance. It is reasonable to conclude that IFQ programs are more likely to be successful if representatives of the relevant fishing communities have been active participants in devising the program and/or if such communities are themselves recipients of IFQ shares and are left to devise their own

procedures for allocating these shares and monitoring their use.[81]

[81] p. 180-181, Sharing the Fish: Toward a National Policy on IFQs

Community IFQ Purchase

Draft

Elements and Options For Analysis

(1) Eligible Communities:

(a) Rural communities with less than 2,500 people in the Gulf of Alaska with direct access to saltwater.

(b) Rural communities with less than 2,500 people in the Gulf of Alaska, no road access to larger communities, and with direct access to saltwater.

(c) Rural communities with less than 2,500 people in the Gulf of Alaska, no road access to larger communities, and with direct access to saltwater, and a documented historic participation in the halibut fishery.

(d) Rural communities with less than 2,500 people in the Gulf of Alaska, no road access to larger communities, and with direct access to saltwater, documented historic participation in the halibut fishery.

Suboption 1: Include a provision that the communities must also be fishery dependent.

Fishery Dependence can be determined by:

(a) Fishing as a principal source of revenue to the community

(b) Fishing as a principal source of employment in the community (e.g., fishermen, processors, suppliers)

The relative importance of fishing to a community can be estimated by looking at other sources of revenue and employment and comparing those sources to fishing activities in the community.

Suboption 2: Decrease community size to communities of less than 1,500 people.

Suboption 3: Increase community size to communities of less than 5,000 people.

(2) Appropriate Ownership Entity within the Qualifying Community

(a) Existing recognized governmental entities within the communities (e.g., municipalities, tribal councils or ANCSA corporations)

(b) New non-profit community entity

(c) Aggregation of communities parallel to the "CDQ groups"

(d) Combination of the entities

Suboption 1: Allow different ownership entities in different communities depending on the adequacy and appropriateness of existing management structures.

(3a) Ownership Caps: For Individual Communities

(a) 1% of 2C or .5% of the combined 2C, 3A and 3B Quota Share Pool (QSPs) and 1% of 2C or 1% of all QSPs for sablefish.

(b) .5% of 2C or .5% of the combined 2C, 3A and 3B Quota Share Pool (QSPs) and .5% of 2C or 1% of all QSP for sablefish.

Suboption 1: Place caps on individual communities that limits them from owning more than 1% of the combined quota share pool in the area they reside and an adjacent quota share area. Communities in 3A would not buy quota shares in 2C.

1. 2C communities capped at 1% of the combined 2C and 3A Halibut Quota Share Pool (QSP), and 1% of the combined Southeast and West Yakutat Sablefish Quota Share Pool (QSP).
2. 3A communities capped at 1% of the combined 3A, and 3B Halibut Quota Share Pool (QSP), and 1%of the combined West Yakutat and Central Gulf Sablefish Quota Share Pool (QSP)
3. 3B communities capped at 1% of the combined 3A, and 3B Halibut Quota Share Pool (QSP), and 1%of the combined West Central Gulf and Western Gulf Sablefish Quota Share Pool (QSP)

Suboption 2: Place caps on individual communities that limits them from owning more than .5% of the combined quota share pool in the area they reside and the adjacent quota share areas. Communities in 3A would not buy quota shares in 2C.

1. 2C communities capped at .5% of the combined 2C and 3A Halibut Quota Share Pool (QSP), and .5% of the combined Southeast and West Yakutat Sablefish Quota Share Pool (QSP).
2. 3A communities capped at .5% of the combined 3A, and 3B Halibut Quota Share Pool (QSP), and .5%of the combined West Yakutat and Central Gulf Sablefish Quota Share Pool (QSP)
3. 3B communities capped at .5% of the combined 3A, and 3B Halibut Quota Share Pool (QSP), and .5%of the combined West Central Gulf and Western Gulf Sablefish Quota Share Pool (QSP)

(3b) Ownership Caps Cumulative Caps for all Communities

(a) 20% of the combined 2C, 3A, and 3B Halibut Quota Share Pool (QSP), and 40% of the combined Gulf of Alaska sablefish Quota Share Pool (QSP).
(b) 20% of the combined 2C, 3A, and 3B Halibut Quota Share Pool (QSP), and 20% of the combined Gulf of Alaska sablefish Quota Share Pool (QSP).
(c) 10% of the combined 2C, 3A, and 3B Halibut Quota Share Pool (QSP), and 20% of the combined Gulf of Alaska sablefish Quota Share Pool (QSP).
(d) 10% of the combined 2C, 3A, and 3B Halibut Quota Share Pool (QSP), and 10% of the combined Gulf of Alaska sablefish Quota Share Pool (QSP).

(4) Purchase, sale, and use restrictions

<u>Blocked and Unblocked</u>

(a) Status Quo: Communities would have the same restrictions blocked share restrictions as individuals

(b) Allow communities to buy only blocked shares or only unblocked shares

(c) Allow communities to buy blocked and unblocked shares

Suboption 1: Communities can purchase blocked and unblocked shares in the ratio of blocked to unblocked shares in that area (e.g., communities are not limited to the current number of blocks that they can own).

Suboption 2: Communities can purchase blocked quota shares in excess of the current limit on block ownership. These blocked quota shares would be considered unblocked only while owned by the communities. Once sold, these quota shares would revert to their original blocked status.

Vessel Size Restrictions (Share Class Ownership)

(a) Apply vessel size (share class) restrictions to the community-owned quota.

(b) Do no apply vessel size (share class) restrictions to the community-owned quota.

Suboption 1: These quota shares without share class would be considered to be without a particular share class only while owned by the communites. Once sold, these quota shares would revert to their original share class.

Residency Requirements

(a) Only permanent residents of the community with a commercial fishing license should be considered as possible recipients (transferee) of quota shares.

(b) Only permanent residents of the community with a commercial fishing license, and commercial fishing experience should be considered as possible recipients (transferee) of quota shares.

(c) Only permanent residents of the community with a commercial fishing license, commercial fishing experience, and no quota shares should be considered as possible recipients of quota shares.

Suboption 1: Allow individuals owning quota shares to receive community fishing quota but individually owned shares would be an “offset” from community fishing quota caps.

Suboption 2: Also allow transfer of community IFQs to non-residents with fishing experience in the community .

Suboption 3: Also allow transfer of community IFQs to non residents from other qualifying communities.

<u>Allocation Criteria</u>: Rank potential recipients based on the employment opportunities that they provide to the communities :

(1) Community residents employing exclusively crewmembers that are also community residents

(2) Community residents employing a crew that is 50% or more community residents

(3) Non-resident employing a crew that is 50% or more community residents

(4) Community resident employing a crew of at least one community resident

(5) Non-residents employing a crew of at least one community resident

Suboption 1: Non-residents that are residents of other qualifying communities are prioritized over non-residents from non-qualifying communities.

Suboption 2: The community could not transfer quota to a non-resident fisherman who did not employ at least one community resident.

Suboption 3: Where potential recipients are equal in employment opportunities provided, allow the community to select other criteria or use a lottery to determine allocation to equally qualified recipients.

Transferees:

(a) Transfer 100% of Community Quota Shares to vessel owners/operators.

(b) Transfer 75% of Community Quota Shares to vessel owners/operators, 25% to crew members

(c) Transfer 50% of Community Quota Shares to vessel owners/operators, 50% to crew members.

(d) Allow individual communities to determine the appropriate distribution between vessel owners/operators and crew members.

Sale Criteria

(a) Require all restrictions on quota shares (e.g., share class, blocked or unblocked status) to be retained once the quota is sold outside of the community.

(b) Allow quota share blocks in excess of 20,000# to be divided in half upon sale.

Suboption 1: Allow blocks of 3B quota share in excess of 20,000# to be divided in half upon sale.

(c) Allow communities to “sweep up” blocks of less than 10,000# and sell as 20,000# blocks.

(5) Code of Conduct

(a) Limit ownership entity to no more than 25% of exvessel value for administrative expense and debt service.

Suboption 1: Limit ownership entity to no more than 10% of exvessel value for administrative expense.

(b) Require equitable compensation for crewpersons and quota share transferee.

(c) Require a regular review of bycatch avoidance measures and fishing methods employed in the community to ensure the use of the best available fishing methods.

(6) Administrative Oversight

(a) Require submission of detailed information to NMFS prior to being considered for eligibility as a community IFQ recipient.

(b) Require submission of an annual report detailing accomplishments.

(7) Sunset Provisions

(a) No sunset provision

(b) Review program after five years and consider sunsetting program if review reveals a failure to accomplish the stated goals.