

# **Pacific Groundfish Buyback Program**

History, Status, and Solution

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## **Executive Summary**

The Pacific groundfish fishery is a federally managed limited entry fishery. The trawl portion of the fishery is rationalized and managed under a catch share program, which was implemented in 2011. The program issues individual transferable quotas (ITQs) to the shorebased catcher-vessel component and utilizes co-op management for the at-sea trawl sectors.

Prior to the mid-1970s the groundfish fishery involved fishing by foreign nations and the fishery was considered underutilized. At that time federal programs encouraged fishermen to build new boats to participate in the groundfish fishery and, not surprisingly, the fleet size and landings increased dramatically.

Passage of the Magnuson Stevens Fishery Conservation and Management Act (Magnuson Act) in 1976 was followed by the implementation of an explicit management plan for the west coast groundfish fishery in 1982, which included annual catch quotas. Species stock assessments produced in the late 1980s and 1990s indicated that many stocks were not as productive as scientists had previously believed, and subsequently quotas for many important species were reduced dramatically to reflect this new information.

The reduced catch quotas created a situation where fishing fleet capacity was out of balance with the available resource. The Pacific Fishery Management Council (Council) acknowledged this by identifying “reducing overcapitalization” as the Council’s number one priority in the Groundfish Strategic Plan. The Council was unable to come to agreement on a workable solution to reduce capacity so an industry-funded federal permit buyback program was proposed and passed into law by Congress in 2003.

The Buyback program resulted in the “buy out” of 91 trawl vessels and associated federal groundfish and state shrimp and crab permits. In exchange, the remaining permit holders were required to pay 5% of their ex-vessel value (gross earnings on groundfish species) annually to repay the loan. The loan includes a 6.95% interest rate and 30 year term. Unfortunately, the National Marine Fisheries Service (NMFS) failed to develop and publish rules for the collection of the buyback loan fees until 18 months after the law was passed and the loan issued. This delay in promulgating regulations added an additional \$5.5 million dollars in accrued interest to the loan balance before

one payment could be made. This added interest coupled with continued low catch quotas has resulted in the industry's inability to successfully repay this loan.

Since the Buyback program went into effect additional efforts to further reduce capacity, reduce regulatory discards and eliminate early season closures associated with trip limit management, a catch share fishery was implemented in 2011. This new way of managing the fishery requires new and additional costs to the industry. The cumulative cost to the industry could soon be around 20% of gross earnings, which is much too high for most fishermen to sustain and be able to remain in business. To ensure the long-term success of the fishery as well as the recently implemented catch share program, the industry is seeking debt relief from this loan obligation, which in its current state results in a huge economic burden to the fleet and will likely never be repaid.

A coalition of organizations and individuals representing essentially all trawl permit holders has worked cooperatively with members of Congress to address this issue. In 2012 a bill was introduced in the House but the legislation stalled and did not move forward. However, in late 2013 two bills were introduced in the U.S. Congress to once again address this issue. Washington State Congresswoman Jamie Herrera Beutler introduced H.R. 2646 in the House. Washington Senator Maria Cantwell introduced S 1275 in the Senate. The bills are essentially the same and enjoy broad bi-partisan support. The legislation seeks to reduce the interest rate (language is written as Treasury Rate plus zero which was 3.64% on March 4, 2014); reduce the annual payments to no more than 3% of ex-vessel value; and extend the terms of the loan out to 45 years. The current loan is saddled with a 6.95% interest rate, a 5% annual ex-vessel value payment and a 30-year term.

As of February 2014 groundfish permit owners still owe \$27,664,619 million dollars. This is just \$764,099 less than what was originally borrowed. Trawl permit owners have paid over \$20.7 million dollars in interest over the last eight years and they still owe essentially as much as was borrowed.

Passing this important legislation during the 2014 congressional session is essential to the future of the west coast trawl fleet and the coastal communities who depend on the groundfish trawl fishery as a major part of their economies. The current suite of expenses that the trawl fleet is facing is not sustainable. Refinancing this loan as soon as possible is necessary to regain a healthy functional trawl fleet along with its associated businesses and family wage jobs.

## **Description of the fishery**

The Pacific Coast groundfish fishery is a multi-species multi-gear fishery for various species of rockfish and flatfish, Pacific whiting, sablefish, lingcod, Pacific cod, and several species of skates and sharks. The fishery has operated under a limited entry system since January 1994. The limited entry permits are endorsed for the use of trawl, longline, and/or pot gear. These permits are also endorsed for the length of the vessel. The permits are transferable and may be used on any vessel within plus or minus five feet of the endorsed length. Multiple permits may also be combined and used on a vessel of greater length. The formula for combining permits is an exponential relationship based upon the length endorsement of the permit.

## **History of the fishery**

Domestic landings from the Pacific Coast groundfish fishery were relatively stable, averaging about 30,000 metric tons (mt) annually, until the early 1970's when landings began to steadily increase. By 1976, when the Magnuson Act was passed, annual groundfish landings had reached 60,000 mt, generating \$36.2 million in real ex-vessel revenues. Ex-vessel revenue is the amount paid to the fisherman by the fish buyer. By 1982, when the fishery management plan (FMP) for Pacific Coast groundfish was implemented, total landings (excluding foreign and joint venture catch) had peaked at 116,000 mt valued at \$71.5 million.

A major reason for this rapid growth in groundfish landings was a substantial buildup in harvesting capacity that greatly exceeded the sustainable production capacity of the groundfish resource. Harvesting capacity increased as newly constructed vessels entered the fishery and as vessels were displaced from other fisheries due to changing Ocean, economic and regulatory conditions. This build-up was fostered by federal programs and policies that encouraged and provided incentives for people to enter the fishing industry. Programs such as the Fishing Vessel Obligation Loan Guarantee Program (FOG) and Capitol Construction Fund (CCF) combined with Investment Tax Credits in the 1980's resulted in many new vessels entering the groundfish fishery.

Trawling has been the dominant means of harvesting Pacific Coast groundfish for the past 50 years. In 1978, large productive trawl grounds in British Columbia, Canada were closed to U.S. fishermen. This action forced Washington state fishermen to fish exclusively in U.S. waters, primarily off Washington. Foreign fishing fleets have also operated in the Washington, Oregon, and California area. The Soviet Union operated a large trawl fleet as early as the mid-1960's for rockfish and Pacific whiting. Poland, the German Democratic Republic, the Federal Republic of Germany, and the Republic of Korea also sent vessels, primarily factory trawlers, to fish in this area prior to the implementation of the Magnuson Act.

In the late 1980's, joint venture operations for Pacific whiting expanded, leading to the elimination of all foreign harvesting in 1989. Beginning late in 1990, U.S. catcher-processor (factory trawler) vessels conducted exploratory fisheries to determine if whiting might provide a viable fishery for U.S. at-sea processing. This at-sea fishery

by American vessels immediately preempted the joint-venture fishery. In 1991, for the first time in roughly 30 years, the entire groundfish fishery was conducted by American operations. At the same time, shore-based processing of Pacific whiting expanded as seafood processors of more traditional groundfish species carved out their portion of the market. Thus, Pacific Coast groundfish landings reached a new peak in 1991, more than doubling the previous high established in 1982.

The overall result of all this activity was that in just a few years the Pacific Coast groundfish fishery had progressed from harvesting surplus production from generally healthy or under-harvested fish stocks, to the point of excessive effort, with stocks at maximum sustainable yield (MSY) levels and limited room for expansion of traditional fishing operations. These problems characterize a rapidly maturing open access fishery and signal the need for management.

## **History of Management**

Prior to implementation of the Pacific Coast Groundfish FMP in September 1982, management of domestic groundfish fisheries was under the jurisdiction of the states of Washington, Oregon, and California. State regulations had been in effect on the domestic fishery for about 80 years and each state acted independently in both management and enforcement. However, many fisheries overlapped state boundaries and were participated in by citizens of two or more states. Management and uniformity of regulations became a difficult problem which stimulated the formation of the Pacific States Marine Fisheries Commission (PSMFC) in 1947. PSMFC had no regulatory power, but acted as a coordinating entity with authority to submit specific management recommendations to states for their adoption.

Early regulations took the form of area closures (e.g., San Francisco Bay was closed to trawling in 1906), because of concerns about stock depletion. Minimum trawl mesh sizes were adopted in the early 1930's in California as the production of flatfish decreased. During 1935 to 1940, voluntary mesh size limits were adopted by the trawl industry after markets imposed minimum size limits on certain flatfish and gear-saving studies demonstrated that a larger mesh size (five inches) caught fewer unmarketable fish. Shortly thereafter, mandatory minimum mesh sizes were adopted by California. Since this time, mesh regulations have been in effect in all three coastal states.

Between the implementation of the Magnuson Fishery Conservation and Management Act in 1976 and the implementation of the Pacific Coast Groundfish FMP in 1982, state agencies worked with the PFMC to address conservation issues. Specifically, in 1981 the PFMC proposed a rebuilding program for Pacific Ocean Perch (POP). To implement this program, the states of Oregon and Washington established landing limits for POP in the Vancouver and Columbia management areas. These limits were revised in January 1982, prior to enactment of the FMP in September, but the 20-year rebuilding program remained unchanged.

Generally, the groundfish FMP focused on solutions to the problems stemming from open access instead of changing the open access system. Aggregate harvest quotas (or guidelines) for certain species and other restrictive measures (e.g., trip limits) on fishing enterprises have been instituted to achieve economic and social objectives. While it was widely believed that these harvest regulations would prevent fish stock depletion, they did not address the economic problem of excess harvesting capacity.

In response to the conditions of excessive effort that developed during the 1980's, members of the fishing industry asked the Council to develop a limited entry program which would cap the number of participants in the fishery. After several years of development, a license limitation plan was approved and became effective on January 1, 1994. The license limitation system was effective at stopping new entry into the fishery and capping harvesting capacity.

However in the mid to late 1990's, the scientific community began expressing concern that they may have been overestimating the productivity of certain groundfish species in light of new scientific information, which suggested that a major change in oceanographic conditions had occurred. These new ocean conditions appeared to be reducing the survival of many species of rockfish. Since these rockfish were now less productive than they were believed to have been, the quotas established for these fish in the past now needed to be reduced.

Additionally, in 1996 Congress passed the Sustainable Fisheries Act. The passage of this law brought with it a wave of more conservative fisheries management and a strict requirement to rebuild fish population to higher levels. One way to rebuild fish populations that are at low levels to larger populations is to reduce harvesting and leave more fish in the ocean.

The combination of these events lead to greatly reduced quotas, which resulted in a reduction of the economic value of the commercial fishery from around \$100 million in 1997 to around \$50 million in 1998. Fishermen, fish managers, and the Governors of California, Oregon, and Washington requested that the United States Secretary of Commerce, declare a Fishery Failure as provided in Section 312 of the Magnuson Act. This declaration was made in January 2000.

### **Past Attempts at Fleet Reduction**

On the Pacific Coast, fishermen participate in a variety of fisheries; the most common are groundfish, shrimp, crab and salmon. Prior to the 2000 Fishery Failure declaration the groundfish trawl industry attempted to develop an industry funded buyback program that would purchase permits and retire them from the fishery. At the time, fishermen that were not involved in the groundfish trawl fishery protested, demanding that the vessels also be removed from the fishery. Their concern was that a buyback program that only purchased permits would provide capital to some fishermen, which would be reinvested in other fisheries, particularly shrimp and crab.

Fishermen in the trawl fishery argued that buying boats and permits would increase the cost of the program and it would be useless without also acquiring the state permits for crab and shrimp. Additionally, trawlers raised the point that if the program were also to purchase state fishery permits, that this would amount to the groundfish trawl fishery paying the cost of reducing effort in the crab and shrimp fisheries. Trawlers believed, that if a buyback program was to benefit the groundfish fishery as well as the crab and shrimp fishery, then participants in all three fisheries should share the industry cost.

The effort to establish a groundfish trawl permit-only buyback program was abandoned following the Fishery Failure declaration in 2000.

### **The Situation Prior to the Buyback**

In the early 2000's, the Pacific Groundfish fishery was in disarray. Quotas on many species had been reduced progressively over several years. New stock assessments suggested that the current harvest levels were still too aggressive and quotas needed to be reduced further. Economic returns from the fishery had been steadily declining through this period and symptoms of a fishery in trouble, such as lack of proper vessel maintenance, were commonplace. Additionally there was a fear that further economic burdens would likely be placed on the fishery in the near future in the form of marine reserves, industry funding of on-board observers, and the need for industry contributions in the form of resource or capital to fund new research efforts.

Unfortunately, the reduced availability of the resource occurred while the capacity of the fishing fleet size had remained static and the change in capacity that should have been occurring at the same time, had not occurred. From this, the economic value of the available resource became out of balance with the harvesting capacity of the fleet. For stability and economic viability to return to the groundfish fishery, the capacity of the fishing fleet needed to be brought into balance with the available resource.

### **Pacific Council's Strategic Plan a Vision of the Future**

The PFMC undertook a lengthy planning exercise to assess the current situation for groundfish management and develop recommendation for the future. The Strategic Plan provided a vision for the future that captures the sentiment of many within the fishing industry.

*We envision a future where Pacific groundfish stocks will be healthy, resilient, and where substantial progress has been made rebuilding overfished stocks. Harvest policies will result in total fishery removals that are consistent with the long-term sustainability of the resource. The fishing industry will be substantially reduced in numbers and harvest capacity will be reduced to a level that is in balance with the economic value of the available resource. Those remaining in*

*the fishery will operate in an environment that is diverse, stable, market-driven, profitable, and adaptive over a range of ocean conditions and stock sizes.  
(emphasis added)*

The Strategic Plan Vision continued touching upon other areas of concern with the fishery, the science, and the PFMC and the plan concluded with a section stating the consequences of inaction.

*There is another vision from that presented above. The Council could continue attempting to manage an overcapitalized fleet in the face of declining resource abundance and the necessity to meet stock rebuilding requirements. This will most certainly result in shorter fishing seasons, smaller trip limits, higher discard rates, and the continuous inability to accurately account for fishery-related mortalities. Many fishers will not be able to meet their basic financial responsibilities and will be forced from the fishery by a feeling of futility or bankruptcy. The Council and participating agencies will be overwhelmed by the need to implement short term fixes to long term problems with little or no chance to focus on the underlying problems of the fishery or to develop a long term management strategy.*

*To avoid this other vision of the future, the Council will have to act swiftly and soon. The Council has a choice in charting the future of the groundfish fishery. Decisions that the Council makes now will have profound effects for years to come*

The PFMC received significant input from their advisory committees throughout the development of the Strategic Plan. The PFMC's Scientific and Statistical Committee (SSC) had examined the overcapacity situation in the groundfish fishery and prepared a report for the Council. The following are two comments from the SSC report to the Council.

***Overcapitalization is the single most serious problem facing the West Coast groundfish fishery. The effectiveness of traditional management measures (e.g., landings limits, seasons) in ensuring that discards are minimized and that a reasonable economic livelihood can be made from the groundfish fishery has been seriously eroded in recent years. Given that OYs are unlikely to increase any time soon, the only viable option for reducing overcapitalization is to reduce potential harvest capacity.***

***The problems associated with overcapacity will not be resolved by waiting for vessels to leave the fishery. The extremely high amount of latent (i.e., unutilized) capacity present in the fishery means that a significant amount of effort is available for mobilization at any sign of improved fishing opportunities. The current problems associated with low landings limits, short seasons and complex and contentious management will not go away unless the***

***Council takes deliberate action to permanently remove latent capacity from the fishery.***

Based upon this input, the Strategic Plan concluded that the highest priority in managing the groundfish fishery was to reduce capacity in the groundfish fishery and this is captured in recommendation #1 from the Management Policy Section.

*Develop an implementation plan to reduce capacity initially by at least 50% in each sector. However, the capacity reduction goal will not be fully realized until capacity has been reduced to a level that is in balance with the economic value of the resource and those remaining in the fishery are able to operate profitably and flexibly.*

The Pacific Council was in a position that it could plan and identify needs for proper fishery management. However, identifying the need for capacity reduction is much simpler than initiating and implementing such a program. Because of the common interest of the fishing industry and the Council in achieving capacity reduction the Fishermen's Marketing Association (FMA) developed a proposal for a buyback program.

**Buyback program**

It was much easier to conceptualize about a buyback program than to implement one. A number of steps needed to occur to bring this program to fruition.

In the 107 Congress, HR 4775 was passed and signed into law on August 2, 2002. This piece of legislation was a supplemental appropriations bill to "... further recovery from and response to terrorist attacks ...", which contained a rider which authorized \$500,000 for "the cost of a reduction loan as authorized" by the Merchant Marine Act. This money was essentially the "risk fee" which was needed to secure a loan from the Treasury.

On February 19, 2003 the President signed the FY 2003 omnibus spending bill, which among many things, authorized a \$50 million loan for the buyback program and specified the details of the mechanism on how it was to occur. The legislation reflects the program that was developed by the FMA. The program involved willing sellers and required that by participating, the seller would forfeit their Federal groundfish trawl permit and any State pink shrimp or Dungeness crab permits that they also owned. Additionally, their fishing vessel would be stripped of its fishing endorsement on the vessel's Federal documentation. The removal of the fishing endorsement meant that the vessel could no longer participate and any (commercial or recreational) fishery in the world.

Potential sellers would submit a binding "bid" which they would accept to retire their permits and vessel. These bids were "scored" by dividing the bid amount, by the gross fishing revenue associated with all of the permits involved. The lower the score, the higher on the list a vessel was placed to be purchased.



Since this program was removing Federal groundfish permits as well as permits issued by the three States for shrimp and crab, the loan repayment was to be apportioned based upon the relative revenue from each sector, from the sum of all successful bidders.

Lastly, before the buyback program could move forward, there was a requirement to hold a referendum to approve the program and loan. The pool of voters in this referendum was all groundfish, shrimp, and crab permit holders on the west coast. But since each sector would be assuming a different amount of the total loan, the votes in the referendum were weighted by the relative amount of the loan by sector.

In the summer of 2003, NMFS mailed bid packages to all Federal groundfish trawl permit owners, bidding occurred between August 4<sup>th</sup> and August 29<sup>th</sup>. One hundred eight (108) permit owners submitted bids, totaling \$59,786,471.

NMFS mailed ballots for the referendum in late September 2003, with the voting period open between October 15<sup>th</sup> and 29<sup>th</sup>. The agency received 1,105 ballots from all seven sectors (Federal groundfish, crab and shrimp for each of the three states). The weighted results of the balloting placed 85.9% in favor approving the buyback program and loan.

The approval of the referendum resulted in 92 trawl permits being retired (this was later adjusted to be 91 permits due to misreporting on one bid form). There were also 36 crab permits and 85 shrimp permits retired (Table 1). Tables 2 and 3 present the value of historic catch removed through the buy-back program and the required fee to repay the loan, and the loan amount by sector.

Table 1. Number of permits removed by fishery.

<b>Fishery</b>	<b>Total number</b>	<b>Number retired</b>	<b>Percent retired</b>
Groundfish	263	92	35.0%
Shrimp			
CA	77	31	40.3%
OR	185	40	21.6%
WA	109	14	12.8%
Crab			
CA	632	23	3.6%
OR	443	10	2.3%
WA	232	3	1.3%

Table 2. Value of catch removed from each fishery.

<b>Fishery</b>	<b>Average Annual Value</b>	<b>Percent of Total Fleet</b>
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Groundfish Total	\$15,972,354	36.5%
Non-whiting groundfish	\$15,561,899	46.0%
Shrimp		
CA	\$376,288	29.7%
OR	\$1,243,970	16.3%
WA	\$144,777	10.5%
Crab		
CA	\$1,302,847	8.7%
OR	\$763,259	3.9%
WA	\$206,185	1.1%

Table 3. Total loan amount by fishery.

<b>Fishery</b>	<b>Loan Amount</b>
Groundfish	\$28,538,743
Shrimp	
CA	\$672,336
OR	\$2,222,675
WA	\$258,682
Crab	
CA	\$2,327,872
OR	\$1,363,760
WA	\$368,403

### **Current Financial Situation of the Buyback Loan**

Flash forward to 2014. A realistic chance of the buyback loan ever being repaid was doomed from nearly the beginning. NMFS published all the rules necessary to conduct the purchase side of the program. The permits were bought and retired as scheduled. However, the Fishery Service delayed publishing the regulations required for the loan payments to be collected for around 18 months, while at the same time they had started the “interest clock” ticking. So the situation existed where the industry was being charged interest on a loan without any mechanism to replay the loan. The result was that an additional \$5.5 million of accrued interest was added to the debt off the top. Since the rules of finance dictate that current and accrued interest must be paid before any payments can be applied to the principal, the groundfish industry finds itself 8.5 years into paying almost \$21 million in interest on this loan.

Additionally, the business plan which forecast the ability of the industry to repay the loan was predicated upon revenue from the industry remaining at least constant if not increasing over time. NMFS made this calculation and assumed that the revenue from the industry would be at least equal to the average revenue from the past 10 years.

However, the revenue in 1995 was nearly \$70 million, while the revenue in 2009 was just over \$30 million (Figure 1).

Lower quotas for some of the most constraining species reduced access not only to those species, but a host of healthier species which represent the true target in the fishery.

For example, because this is a multi-species fishery, when the quota for Darkblotched rockfish is reduced, fishing effort for Dover sole, Sablefish, and the two species of thornyhead rockfish is reduced greatly to prevent exceeding the new lower quota for Darkblotched rockfish. Species such as Yelloweye rockfish had a stock assessment in the summer of 2003. This assessment was accepted by the Council that fall. This assessment suggested that Yelloweye rockfish was currently overfished. The buyback bidding and referendum was being held at this same time that this was happening. The following summer in June 2004, the Council approved a rebuilding plan for Yelloweye rockfish which establish an extremely low quota for the species, which was reduced even further in subsequent years. This action occurred entirely after the completion of the buyback program.

For as long as a groundfish trawl fishery has existed on the West Coast, the “non-whiting” portion of the fishery has been the dominate sector, generating the lion’s share of the value in the fishery. The whiting sector until 1990 still had a foreign component. The “Americanization” of the whiting fishery began in the late 1970’s with Joint Venture arrangements with largely Soviet block countries, but has transitioned into fully American interest. However, the market for whiting products is still very dependent upon the world market for other white fish products. Fortunately, declines in abundance of whiting stocks in South Africa and South America, have increased the demand for Pacific whiting, which has resulted in an increased value of the whiting sector of the west coast groundfish fishery, however, that market remains fickle and sensitive to subtle changes in the availability of other whiting stocks. An improvement in some of these other whiting stocks could quick turn the fortunes of the west coast whiting into a declining pattern. If it were not for the good fortunes of the whiting sector, the revenues generated by the entire groundfish fishery would have been greatly below the estimated revenue required to repay the buyback loan.

In contrast to groundfish, the crab and shrimp fisheries (excluding California shrimp) have had exceptional seasons since the buyback program was implemented. The revenue generated in those fisheries far exceeds the estimated value for the fishery. Figure 2 depicts the revenue for the Oregon crab fishery through the same period of time as Figure 1 showed for groundfish.

In summary, the combination of adding additional debt through accrued interest and low quotas for some species restricting the landings of healthy stocks and reducing the revenue potential of the fishery have resulted in loan payments that are insufficient to adequately pay down the loan. At this rate, the groundfish sector will never retire the debt obligation of the buyback loan.

Table 5 shows the current balance of the loan and payments to date, by sector for the buy-back program. The graph in figure 3 shows the projected loan balance for the entire 30 year amortization period along with the actual loan balance. Additionally, the total amount of money cumulatively paid toward the loan is also represented.

Table 5. Status of loan repayment by fishery as of February 14, 2014.

<b>Fishery</b>	<b>Dollars paid</b>	<b>Loan amount</b>	<b>Current Balance</b>
Groundfish	\$20,746,810	\$28,428,718	\$27,664,619
Shrimp			
CA	\$645,839	\$674,202	\$494,696
OR	3,253,339	2,228,844	\$0
WA	\$402,592	\$259,399	\$0
Crab			
CA	\$3,447,466	2,334,334	\$0
OR	1,856,255	\$1,367,545	\$253,024
WA	\$409,925	\$369,425	\$189,542
<b>Total</b>	<b>\$30,762,228</b>	<b>\$35,662,470</b>	<b>\$28,601,883</b>

### **Post Buyback Implementation**

Fishing began in 2004 with a smaller trawl fleet with much less harvesting capacity. The Council responded to the news of the completed buyback effort by significantly raising trip limits for important species where bycatch problems were low. However, the benefits of a smaller fleet were short lived, as new stock assessments were being produced that required additional protection to a number of species that are caught incidentally while trawling.

This set-back led the fishing industry to approach the Council with a request to begin to move forward developing a new approach to groundfish management, called an Individual Fishing Quota (IFQ) system – also known as a “rationalization” or “catch share” program. The belief was that through this type of management, individual fishermen would be responsible and held accountable for their own catch. If a fisherman was able to fish in a manner or at a time when his bycatch was low, he then could access the other target fish that had been made available to him. In order to assure his actual catch was recorded correctly, this new program would require 100% observer coverage.

The new program took about eight years to develop and implement. Throughout the development of the program, it was understood that the Magnuson-Stevens Act gave NMFS the authority to collect an additional 3% of participants gross revenues to help cover the cost of the program.. However, as the date of implementation approached,

NMFS informed the industry that they were not planning on providing observers for the program, therefore the cost of observers would not be included in the 3% cost recovery cap. The NMFS approach was that the requirement to take an observer would simply be part of the regulations with which fishermen would need to comply. The cost of the observer would then be an expense in addition to the 3% cost recovery fee.

In the first year of this program, NMFS paid approximately 90% of the cost of the observer. As of 2014, NMFS is contributing \$216 per day as the reimbursement to fishermen. The average cost of a non-whiting human observer is currently \$450 per day. The industry is currently expected to pay the full amount for observer coverage beginning in 2015.

What the observer cost represents to an individual fisherman as a percentage of his gross earnings will vary from one fisherman to another. However, it is generally agreed that the cost of observers will represent around 10% of the gross for many fishermen. This cost is in addition to the 3% cost recovery (implemented in January 2014) and the 5% Buyback loan payment. These federal costs are in addition to state landings taxes along with other industry dues and fees and result in a situation where around 20% of the gross earnings of each fishing business will be removed as fees, before the fisherman can even begin paying any of his vessel-related expenses or crewmen. Simply put this will kill most fishing businesses.

### **What We are Asking**

In a perfect world our first choice to resolve the loan situation that we find ourselves wrapped-up in, would be an easy one to accomplish. We first and foremost would like to have complete debt forgiveness. In comparison to the Federal disaster money spent on Pacific Salmon fishermen, we believe that debt forgiveness is easily justified. The Salmon fishermen were simply paid \$158 million dollars one year and \$59 million in a second year. Salmon fishermen were not attempting to solve a fishery management problem by taking responsibility for some action. They simply put the hand out and received money for not fishing for Salmon, while they were perfectly free to engage in other alternative fisheries.

However, this is not a perfect world, and groundfish although being the foundation of the entire west coast fishing industry, is not viewed as an icon or something that has taken on mythical importance such as salmon.

Much as the cumulative effect of continual and increasing conservation measures have reduced the economic viability of the groundfish fishery through reduced access to the available resource, the increase cost to the industry of supporting fishery management through direct and indirect cash payments for services is and will continue to reduce the industry's ability to contribute positively to the economic benefit of coastal communities.

The buyback program would not have occurred if the industry had not led the effort to have the program developed and implemented. The buyback program provided immediate benefits to the industry and achieved a goal of the PFMC that the fishery management system was unable to provide. Having a smaller fleet continued to simplify the complex process of fisheries management, but it did not resolve all of the problems that took years to develop.

Recently, the industry led the way once again to embark on a new system of fishery management that holds great promise to resolving the continued problem of discards and wastage, while at the same time providing the industry with a system of management that will allow them to self adjust to future fishery problems. However, the cumulative cost of fishery management will be great. Debt relief for the buyback program would be a very effective first step in reducing cost to ensure future willingness of the industry to continue to participate in fishery management in a creative manner. While at the same time begin to return some economic benefits from a healthy fishing industry back into the coastal communities.

Therefore, as a fall back request, we are seeking Congressional action to direct the NMFS to recalculate our debt obligation, with zero percent interest, and to apply all payments which have been made to date towards the principal, with the balance to be paid over the next 30 years.

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