

PUBLIC TESTIMONY SIGN-UP SHEET

Agenda Item: D-2 TANNER CRAB CAPS

| | NAME (PLEASE PRINT) | TESTIFYING ON BEHALF OF: |
|----|------------------------------------|--------------------------------|
| 1 | Take Jacobsen, Joe Sullivan | Inter-Cooperative Exchange |
| 2 | Bill Orr | Ocean Fresh Signature Seafoods |
| 3 | Jonathan Thorpe HO | Blue Harvest |
| 4 | Steve Minor HO | QSL, LLC |
| 5 | John Iani | North Pacific Crab Assn. |
| 6 | Heather McCarty & Mateo Paz-Soldan | CBSEA & City of St. Paul |
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NOTE to persons providing oral or written testimony to the Council: Section 307(1)(I) of the Magnuson-Stevens Fishery Conservation and Management Act prohibits any person "to knowingly and willfully submit to a Council, the Secretary, or the Governor of a State false information (including, but not limited to, false information regarding the capacity and extent to which a United State fish processor, on an annual basis, will process a portion of the optimum yield of a fishery that will be harvested by fishing vessels of the United States) regarding any matter that the Council, Secretary, or Governor is considering in the course of carrying out this Act.



BLUE HARVEST
FISHERIES

Blue Harvest Fleet • Blue Harvest Marine Services • Blue Harvest Foods

April 7, 2017

Mr. Dan Hull, Chairman
Mr. Chris Oliver, Executive Director
North Pacific Fishery Management Council

Re: Agenda Item D-2
Tanner Crab Custom Processing Use Cap Exemptions

Gentlemen,

Although I had planned on personally testifying, a scheduling conflict requires my absence. Please accept these written comments.

Our request that the Council exam the benefits of capacity triggers across all rationalized crab fisheries is driven by the current processors refusal to provide custom processing services to our company during the 2016/17 crab seasons. We are a well-capitalized company and we had secured preliminary commitments from several crab quota holders to begin operations this year.

One can only conclude that the current system of custom processing use cap exemptions has failed.

The original Environmental Impact Statement for the crab program anticipated this possibility. In establishing the 30% use, ownership and facility caps the EIS noted that "...although unallocated processing provides an opportunity for entry of processors, the ability of entering processors to compete for those shares could be limited by the ability of holders of processing shares to spread the cost of attracting Class B share deliveries across Class A share deliveries."

That is in fact what is happening.

The ability of initial issues of processor shares to unfairly compete for B, C and CDQ deliveries was one of the primary reasons for the caps. Since that time, the introduction of unrestricted use cap exemptions have allowed those processors to exceed those use caps and erect a barrier for new entrants that is nearly impossible to overcome. Blue Harvest Fisheries is simply asking that the Council consider the use of processing capacity triggers, Option Three in your Discussion Paper, to reestablish competitive opportunities in the processing sector.

Sincerely,

Jeffrey W. Davis
CEO

Testimony of Steve Minor.

Agenda Item D-2

The Tanner Crab Processing Cap action that the Council took last year on an expedited basis, as well as the current Discussion Paper, were undertaken in response to a perceived emergency - that the sale of Icicle's crab business and the sudden loss of Icicle as an active processor could result in stranded processing and harvesting quota. That action was very essential, but it was also a very narrow response to a particular event.

The loss of Icicle Seafoods as an active processor has since raised significant concerns within the industry and across all of the crab fisheries, which we are asking the Council to begin to review through a new Discussion Paper.

As Sarah Merriman explained in yesterday's presentation under Agenda Item D-1, before the crab fisheries were rationalized processors openly and aggressively competed to maintain their share of the crab resource. That competition has been significantly reduced by the introduction of Processor Quota Shares, which now guarantees PQS and IPQ holders access to a share of a the crab resource.

The Council recognized the problems that the introduction of Processor Quota Shares could create and adopted both a binding arbitration system and thirty percent (30%) processor ownership, use and facility caps to limit excessive share concentration and control in the processing sector.

In support of these caps, the Environmental Impact Statement for this program made two significant points. First, quoting now from the EIS ... "Excessive^{ive} share concerns in a fishery arise when interests are consolidated to the extent that persons can influence the market for outputs, influence labor markets, influence opportunities for entry, or capture a disproportionate share of the benefits of a fishery." (Page 1-21)

In regards to B, C and CDQ shares, which some people argue are sufficient for a new processor to enter the crab fisheries, the EIS goes on to say that "...Although unallocated processing provides an opportunity for entry of (new) processors, the ability of entering processors to compete for these shares could be limited by the ability of (the current) holders of processing shares to spread the cost of attracting Class B share deliveries across Class A share landings." (Page 4-147). In essence, the EIS recognizes that entry will be difficult, and that caps are therefore necessary.

Beginning in 2009 the Council, often at the urging of industry and in response to perceived problems, has created a series of custom processing use cap exemptions that have allowed the three remaining active processors to consolidate all crab processing well beyond the original

intent of this program. The question that the Council must now wrestle with is whether or not the structure of the program allows an opportunity for a new competitor to enter the processing sector, or if we have unintentionally locked ourselves into a program where just three entities provide all processing, and the consequent control issues that are raised.

For the last several weeks I have had informal discussions with harvesters, PQS and IPQ holders and some crab dependent communities about these issues. As a result, I believe that an amendment built around the processing capacity trigger suggested in your current Discussion Paper as Option Three can be developed that addresses the concerns that have been raised.

In these meetings, we have wrestled with questions about how a processing capacity trigger could work, what the industry could do if a new entrant - or any active processor - fails mid-season, and whether or not some fisheries or regions need special consideration. If Council members wish, I can describe some of those ideas; but ultimately these issues need to be examined through a more rigorous process that starts with a Discussion Paper.

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With that in mind, I would like to propose the following:

That the Council initiate a new Discussion Paper that considers the effect or potential effect of Custom Processing Use Cap Exemptions and consolidation on new entrants, costs and market access; and how a Processing Capacity Trigger, identified as Option Three of the April 2017 Tanner Crab Processing Exemption Discussion paper could be applied across some or all of the BSAI CR fisheries and regions to address Council intent and the concerns raised in the EIS.

The Discussion Paper should also consider whether west region crab fisheries and/or the north region opilio fishery should be exempt from any further action because of their unique circumstance.