MEMORANDUM

TO: Council, SSC and AP Members

FROM: Clarence G. Pautzke

Executive Director

DATE: January 12, 1989

SUBJECT: Future of Groundfish Management

ACTION REQUIRED

Give direction for further development.

BACKGROUND

At the June 1988 meeting the Council adopted the following recommendations regarding further work on the future of groundfish:

- 1. The Council staff is to "flesh out" the management alternatives listed in the Future of Groundfish Committee report. These alternatives are to include the option of continued open access.
- 2. The Council will appoint a revised Future of Groundfish Committee to act as a sounding board for the staff in developing the alternatives.
- 3. The Council is to take part in a series of seminars with the industry and interested groups that will provide for discussion of the work of the Future of Groundfish Committee and the various management alternatives in the Committee report.

Item C-4(a) contains a synopsis of the FOG report and recommendations. Item $\overline{\text{C-4(b)}}$ has expansions of the management alternatives from the FOG committee report. These were drafted in preparation for the September meeting. Item $\overline{\text{C-4(c)}}$ is a roster of the original Future of Groundfish committee members. The Council declined to appoint a revised FOG committee in June.

When FOG put their recommendations together last spring it had been hoped that Natural Resources Consultants, with Saltonstall-Kennedy funding for a limited entry study, would serve as an organizer for the seminars. This option fell through when NRC decided against pursuing the S/K funds. Staging the seminars now will depend on mustering funding from NMFS or industry or trying to wring it out of our 1989 administrative budget. The cost will vary considerably depending on whether just travel for staff is required or if a contractor is needed to lead the seminars.

1988 FOG Committee Summary

Concerns

FOG identified several industry concerns, which related in large part to excess capacity, as follows:

Joint venture harvesters - future opportunities.

Factory trawlers - constraints on growth.

Shorebased processors - protecting nearby resources.

Coastal communities - being left out of the bottomfish industry.

Problems

FOG identified five specific problems:

- 1. Biological conservation.
- 2. Declining data on which to base Council decisions.
- 3. Excess capacity in the harvesting sector.
- 4. Increased allocation conflicts.
- 5. Bycatch waste.

The <u>one key question</u> FOG believed should be asked of any management system was whether the management regime would provide a framework for the U.S. industry to be competitive in the world groundfish markets within the principles of sound biological management.

In terms of future direction FOG felt the Council should determine how to use what is known today to make the future as good as possible, not design a majestic future for the long-term.

Any Management System

FOG believed any system should:

- 1. Promote economic efficiency.
- 2. Be simple to understand and cost effective.
- 3. Allow the industry to respond to market and resource fluctuations.
- 4. Allow for technological innovation.
- 5. Respond to social concerns.

Current Management System

FOG felt the current system does not provide the aforementioned framework and, in fact, it:

- 1. May not prevent overfishing.
- 2. Is not promoting efficient utilization.
- 3. Is not providing optimum benefit to the nation.
- 4. Is not reducing bycatch or the impacts of one fishery on another.
- 5. Is not promoting economic health to the industry.
- 6. Is not strengthening fisheries research.

FOG also felt that under continued open access:

- 1. Excess harvesting capacity problems in the fleet will worsen.
- 2. Conflicts over allocation will increase at the cost of a healthy resource.

FOG Recommendations

- 1. <u>Trawl groundfish</u>: Develop an amendment package for the 1989 cycle to limit access in the groundfish trawl fisheries. Include the following alternatives:
 - (a) An IQ proposal for all trawl groundfish species in the EEZ by management area.
 - (b) A multi-species permit program for all groundfish species in the EEZ. This program would be preceded by a June 30, 1988 cut-off date.
 - (c) A ProChoice program where fishermen could choose whether to fish in an open access or an IQ fishery.
- 2. <u>Longline species</u>: Develop an amendment package for the 1989 cycle to limit access in all longline fisheries. Include the following alternatives:
 - (a) A ProChoice program.
 - (b) A multi-species longline permit system for all longline-caught species. This program would be preceded by a June 30, 1988 cut-off date.
- 3. <u>Crab</u>: Develop an amendment package for the 1989 cycle to limit access in the crab fisheries. Include the following alternatives:
 - (a) A ProChoice program for a 3-5 year experiment.
 - (b) A permit system with a buyback program funded by a tax on gross sales for a fixed number of years. The cut-off date for qualifying would be June 30, 1988.

4. General recommendations:

- (a) Take part in a series of seminars for industry which would summarize the Committee discussions and the strengths and weaknesses of various alternatives.
- (b) Appoint a revised committee to act as an advisory group for the Council team developing the amendment packages.
- (c) With respect to the Council's considerations of a cut-off date, the majority of the Committee believes that the Council should announce that, if a harvesting vessel has not fished or is not "in the pipeline" by June 30, 1988 that it will not be able to earn credit for any eventual limited access system. While this was the majority position, a number of members disagreed with this position.

Proposal: Bering Sea/Aleutian Island Crab Individual Fishing Quotas/Open Access

Under this three-year experimental program, vessel owners could choose either to fish for an individual fishing quota or in a competitive fishery for each species of crab in the Bering Sea/Aleutian Islands. IFQs would be allocated to vessels based upon a weighted average of a vessel's historic landings and a number of years participation in the various BS/AI crab fisheries. Initial eligibility would be legal landings in a BS/AI crab fishery between January 1, 1978 and December 31, 1987. The second step of eligibility would be to divide the eligible vessels into two categories:

- (a) Vessels with at least four years participation during the time period 1978-1987; and,
- (b) Vessels with at least one years participation during the time period 1985-1987.

IFQs could be weighted more favorably for the group of vessels with at least four years participation. The division of IFQs could be 60%/40% in favor of the group with longer participation but the exact split would be arrived at within industry negotiations.

Individual quotas would be determined for each vessel as a weighted average based on a vessel's annual percentage of the TAC in a BS/AI crab fishery plus the number of years participation in that fishery.

IFQs would be issued for each species as a percentage of the individual TACs. Annually, vessel owners could choose to either fish their IFQs or to contribute the individual quotas to a competitive fishery and fish until the pooled IFQs are harvested. IFQs could be fished year-round with closures only for the protection of molting crab. Current regulations regarding size and gender would be maintained.

The competitive portion of the fishery would take place during a specified period and would only be open to those vessels choosing to contribute all their IFQs to the competitive fishery. The TAC for the competitive fishery would be the sum of the IFQ contributions. No vessel could fish in both the IFQ and competitive fishery. A single vessel fishing IFQs could not harvest more than 10% of the TAC in any one crab fishery annually.

For the first three years of the program, the IFQs, would be attached to the initial recipient vessel and could be transferred with that vessel. At the end of those three years, fishermen who own vessels with IFQs could, by an industry referendum, either terminate the program or make it permanent. If the program became permanent, then permanent transfers and leasing of individual fishing quotas between the vessels would be allowed.

DRAFT

Proposal: Bering Sea/Aleutian Islands Crab License Limitation

- A. Recipient: Vessel owner
- B. Eligibility:
 - 1. Class I license:
 - (a) At least 50% of a vessel's annual gross fishing income must be from one of the Bering Sea/Aleutian Islands crab fisheries in any 3 of the years 1980-1985.
 - (b) Qualification in any one crab fishery results in the issuance of a permit for all BS/AI crab fisheries.
 - 2. Class II license:
 - (a) Vessels participating in the BS/AI crab fisheries for the first time between Jan 1, 1986 and June 30, 1988.
- C. Conditions:
 - 1. Type I Licenses:
 - (a) Licenses issued by vessel length:
 - Class A 0-50'
 - Class B 51-60'
 - Class C 61-70'
 - Class D 71-100'
 - Class E 101-125'
 - Class F 126-175'
 - Class G 176'+
 - (b) Licenses may be leased or permanently transferred within vessel size category. -
 - (c) Permits last in perpetuity.
 - 2. Type II Licenses:
 - (a) Non-transferable
 - (b) May only be used for the 2 years after issuance.
- D. Buyback:
 - 1. An industry-funded buyback program would reduce the number of permits in the fishery; the buyback program would be funded by an ad valorum tax on exvessel sales for a specific time period (e.g. 5% assessment on a vessel's annual gross fishing income attributable to the Bering Sea/Aleutian Islands crab fisheries).
 - 2. An industry committee would administer the buyback program.



Proposal: Bering Sea/Aleutian Islands Crab License Limitation

- A. Recipient: Vessel owner
- B. Eligibility: At least 25% of a vessel's gross annual fishing income must have come from any of the Bering Sea/Aleutian Islands crab fisheries in any three of the years 1979-1988. Qualification in any one crab fishery results in the issuance of a permit for all Bering Sea/Aleutian Island crab fisheries.

C. Conditions:

- 1. Permits issued by vessel length:
 - Class A 0-50'
 - Class B 51-60'
 - Class C 61-70'
 - Class D 71-100'
 - Class E 101-125'
 - Class F 126-175'
 - Class G 175'+
- 2. Permits may be permanently transferred or leased within vessel size category.
- 3. Permits last in perpetuity.

D. Buyback:

- 1. An industry funded buyback program would reduce the number of permits in the fishery. The buyback program would be funded by an ad valorum tax or exvessel sales for a specific time period (e.g. 5% assessment on a vessel's annual gross fishing income attributable to the Bering Sea/Aleutian Islands crab fisheries).
- 2. An industry committee would administer the buyback program.

Proposal: Groundfish/Crab License Limitation

- A. Recipient: Vessel
- B. Eligibility: A vessel with a legal landing of any groundfish or crab species before date of final Council action or any harvesting or harvesting/processing vessel in the "pipeline" before a cut-off date and intended for use in the Alaska groundfish or crab fisheries. "In the pipeline" means having a keel laid or a binding contract for purchase, conversion or construction if delivery or completion of work takes place and a legal landing of fish or crab is made within 18 months after the cut-off date.

C. Permit Conditions:

- 1. (a) Permits issued by vessel length:
 - Class A 41-60'
 - Class B 61-70'
 - Class C 71-100'
 - Class D 101-125'
 - Class E 126-175'
 - Class F 176'+
 - (b) No access limitations would apply to vessels under 40' in length; however, vessels in this class could not be combined to qualify for a permit in a larger class.
- 2. (a) Transferable:
 - class for class, or
 - 2 class A to a class B vessel,
 - 2 class B to a class C vessel, etc.
 - (b) A 10% upgrade in size or horsepower may be allowed.
 - (c) All transfers will be reviewed for approval by NMFS Regional Director/Alaska.
- Area specific permits issued for:
 - (a) Gulf of Alaska
 - (b) Bering Sea/ Aleutian Islands.
- 4. Permits would not be restricted by species, but would allow the holder to harvest all of the groundfish and crab species.
- 5. No gear restrictions would apply.
- 6. Permits last in perpetuity.
- D. <u>Cut-off Date</u>: Any cut-off date or eligibility date will be established by the Council within the guidelines in the Council's Statement of Commitment (adopted on September 25, 1987 and modified on December 11, 1987); that is the Council may adopt such a date retroactively.



Proposal: Groundfish License Limitation

A. Recipient: Vessel Owner

B. <u>Eligibility</u>: The harvest and sale of groundfish as a gear license holder in a Gulf or Alaska or Bering Sea/Aleutian Islands groundfish fishery between January 1, 1978 and December 31, 1988, or holding a gear license at any time during that period.

C. Conditions:

- 1. License limitation applied to all areas, all gear types, and all groundfish species except halibut.
- 2. (a) Upon notification of eligibility, each vessel owner will choose only one gear type to fish and only one area in the GOA. The limited entry permit will be restricted to that gear type and GOA area, but will allow the holder to also fish in the BS/AI.
 - (b) If the vessel owner's eligibility is based upon only holding a gear license between January 1, 1978 and December 31, 1988, a limited entry permit will be issued only for the Bering Sea/Aleutian Islands area.
 - (c) To fish a different gear type or GOA area, the appropriate permit must be acquired from another vessel owner.
- 3. Permits would be transferable and leasable.
- 4. Permits would last in perpetuity.



Proposal: Groundfish License Limitation

Beginning in 1989, entry in all groundfish fisheries off Alaska (except for halibut) would be restricted by limiting the number of participants to those who held hear licenses and made legal landings in the Gulf of Alaska or Bering Sea/Aleutian Islands groundfish fishery at some time during the period January 1, 1978 and January 31, 1988. Limited entry permits would be transferable; however, the permits would restrict fishing activities of the vessel to a single Gulf of Alaska registration area and the Bering Sea/Western Aleutian Islands. Limited entry permits would be required in all bottomfish fisheries including sablefish, rockfish, Pacific ocean perch, Pacific cod, pollock, Atka mackerel and all flatfishes except for halibut. Bottomfish permits would be classified as follows:

- (a) Trawl includes otter and beam, midwater and bottom trawl,
- (b) Longline all hook and line gear,
- (c) Pot bottomfish or crab,
- (d) Other (seine, etc.).

A participant must select only one gear type regardless of eligibility. He may not fish another gear type unless he acquires the appropriate license and transfers away his existing permit.

A participant must also select one Gulf of Alaska fishing area from the following designated registration area:

- (a) Southeastern
- (b) Central Gulf
- (c) Western Gulf

A fisherman's gear license will be issued for one of the above registration areas providing he can prove eligibility, that is, participation in the Gulf of Alaska groundfish fishery during the period January 1, 1978 to January 31, 1988. Proof of participation can be, but not excluded to, fish tickets,



certified affidavits, etc. If an applicant cannot prove participation in any Alaska groundfish fisheries but has held a groundfish gear license, he can be issued a limited entry permit that may only be fished in the Bering Sea/Western Aleutians area. A commission will be formed to initially allocate limited entry permits and monitor their transfers.

Proposal: Groundfish Moratorium

- A. Recipient: Vessel
- B. <u>Eligibility</u>: Prior to the 1989 season, moratorium licenses would be issued to catcher and catcher/processor vessels used in any Gulf of Alaska or Bering Sea/Aleutian Islands groundfish fishery before June 30, 1988, and to catcher and catcher/processor vessels under construction or conversion for the Alaska bottomfish fishery before June 30, 1988.

C. Conditions:

- 1. Moratorium licenses would be required for:
 - (a) all areas in the EEZ,
 - (b) all gear types,
 - (c) all groundfish species, including halibut.
- 2. Moratorium licenses would be transferable with the vessel.
- 3. Replacement of lost vessels and upgrading of existing vessels would be permitted during the moratorium.
- 4. Moratorium licenses would be valid until January 1, 1992 when the moratorium will be replaced by a license limitation, an individual fishing quota, or open access system.

Proposal: Groundfish Enterprise Allocation/Open Access

Under this program, Enterprise Allocations (EAs) will be established for each groundfish species and each gear class in the groundfish fisheries off Alaska. EAs will be allocated to harvesters (vessels) which fish out of the DAP quota. These EAs will be a percentage of the TAC based on a vessel's average catch over the three years preceding the year in which its EA is established. Vessels may also get consideration for the capitalized value of the vessel receiving EA.

For vessels which elect the EA fishery, their EA will be fixed in the year in which JVP goes to zero or DAP reaches 120% of the 1989 TAC; therefore, the entire DAP fishery operates as an open access fishery until the year in which EAs are fixed.

Since the sum of the average annual catches of each vessel eligible for an EA is not likely to equal the TAC exactly, the EA will be a pro-rated percentage. For example, if the sum of the average catches was 1.4 million tons and the available TAC was 1.19, the actual EA percentage multiplied by the TAC would only give each vessel 85% of their average annual fishing quota in that year.

Vessels in the JV fishery will be allocated EA Warrants (EAWs) which entitle the vessel to a permanent EA if it makes deliveries to a domestic processor during the period 1989-1992. The EAWs will be based on a JV vessel's average annual JV catch in the years 1986-88. The total EAWs distributed will be equal to one-half of the JVP in 1989. The EAWs will be at 100% of their initial value in the first three years (1989-1991); two-thirds of their value in the fourth year; one-third in the fifth year; and zero thereafter.

For the sake of an example, assume a JV pollock trawl had average JVP pollock deliveries in the 1986-88 period of 25,000 tons representing 2.5% of the average JVP during that period (1,000,000 tons) and 1989 JVP was 800,000 tons. According to the EAW allocation formula, the total EAWs available for distribution would be 400,000 tons (½ of the 1989 JVP) which would entitle the JV vessel to an EAW of 10,000 tons (2.5% of 400,000 tons). If there were a development situation like Example II (following) where DAP grew rapidly and EAs were fixed in 1990, this JV boat would have its 10,000 ton EAW totally protected through 1991, 6,600 tons through 1992, and 3,300 tons through 1993.

In other words, if in any year through 1991 this vessel made 10,000 tons of deliveries out of the DAP quota it would be entitled to an EA sufficient to provide a 10,000 ton quota. If the JV boat didn't make any DAP deliveries until 1992, and at that time delivered 10,000 tons, due to the sunset restriction on EAW, the vessel would only be entitled to an EA of 6,600 tons. Of course, with EAWs totally transferable our vessel could obtain sufficient EAWs from other holders of EAWs through purchase, or lease, to secure a full 10,000 ton EA.

If DAP grew very slowly such that EAs were not fixed until 1995 (as detailed in Example I, below), EAWs would not be needed since the vessel's DAP deliveries prior to 1995 would be counted in the same manner as the landings of vessels operating out of the DAP quota and the JV vessel would be entitled to the appropriate EA at the time the allocations were fixed in 1995. Thus, as can be seen, EAWs are merely intended to be a mechanism to protect the JV boats and give them a chance to secure a long-term quota should DAP grow rapidly.

The DAP fishery would have two components—EA fishery and an open access fishery. Vessels would be polled in the year in which JVP goes to zero to determine in which fishery they wanted to be placed (EA or open access). The allocation of TAC among the two fisheries would be based on the same formula used to calculate a vessel's eligibility EA (i.e., average catch over the preceding three years). Thus, all vessels falling into each category would have their respective EAs computed and totaled to determine the amount of TAC to allocate to the EA fishery and the OA fishery.

Each year thereafter there will be an open period in which a vessel in the OA fishery can request an EA and vice versa (vessel in EA fishery can go into the OA fishery). Any vessel going from the OA fishery into the EA fishery would have its EA based on the TAC in the OA fishery and its relative standing in that fishery.

EAs are fully transferable rights that can be sold but not more than 20% of the EAs can be held by a single entity.

Any new entrants into the fishery would enter the OA fishery. The following



year they would be eligible for an EA based on the criteria set out above, i.e., average catch over the preceding three years.

Since an EA represents a percentage of the TAC, the actual quota amount available to a vessel would rise and fall in proportion to the changes in TAC. Obviously, with this arrangement, if TAC were to rise dramatically there would be a tendency to possibly build more capacity to utilize this larger TAC. In order to discourage such a build up in the EA fishery and provide opportunity for boats which might be experiencing economic difficulty in a depressed fishery (TAC has dropped significantly), the amount of TAC allocated to the EA fishery can never exceed 120% of the 1989 TAC (e.g., 120% of 1.2 million tons equals about 1.4 million tons). The surplus TAC above 1.4 million tons would be allocated to the OA fishery.

Any vessel electing to fish in the EA fishery could not fish in the OA fishery for that species. But they would be eligible to fish in other OA fisheries.

The holder of an EA would be free to fish at any time of the year when the EA fishery is open (there might be closures for biological reasons) and with any gear except those gears or fishing practices specifically prohibited. EAWs not exercised would revert back to the OA fishery for new entrants.

Following are examples of how this system may work if DAP growth proceeds along one of two tracks.

Example I - DAP Grows Slowly

In this example the DAP fishery grows slowly with JVP lasting through 1993. Please refer to Table 1 below. The EAWs allocated to JV boats in 1989 are also slowly exercised. Due possibly to the strong JV fishery through 1990 and also the time needed for some JV boats to line up DAP markets which are better than their JV fisheries, warrants are not exercised until 1991.

The DAP fishery reaches 120% of the 1989 TAC in 1992. Thus, in that year the EA/OA split in the DAP fishery is established. A number of the participants want to stay in an OA fishery so only 1.2 million tons is allocated to EA boats. Note that there is sufficient cushion in the OA TAC to accommodate the 130,000 tons of EAW in 1993. In other words, if all those EAWs are

"perfected" there is sufficient fish to provide them the corresponding EA amount.

In 1994 the outstanding EA warrants expire and the EA TAC goes to it maximum of 1.4 million tons. In 1995 the EA TAC drops to 1.2 million tons because of the overall drop in TAC from 1.8 to 1.4 million tons and the fact that some boats still prefer an OA fishery.

Table I. DAP Grows Slowly

						EA	W
Year	TAC	DAP	JVP	EA	<u>OA</u>	Avail	Used
1989	1.2	0.4	0.8			0.4	0.0
1990	1.2	0.6	0.6			0.4	0.0
1991	1.4	1.2	0.2			0.3	0.1
1992*	1.6	1.4	0.2	1.0	0.4	0.26	0.1
1993	1.8	1.6	0.2	1.2	0.4	0.13	0.1
1994	1.8	1.8	0.0	1.4	0.4	0.0	0.2
1995	1.4	1.4	0.0	1.2	0.2	0.0	0.2
1996	0.8	0.8	0.0	0.7	0.1	0.0	0.2

^{*}Year in which EAs are established.

Example II - DAP Grows Rapidly

In this example, depicted in Table II below, JVP goes to zero in 1990. With 400,000 tons of EAWs outstanding, the EA TAC cannot be more than 1.0 million tons. The EA TAC slowly increases to the maximum 1.4 million tons in 1994.

Note that no EAWs are exercised until 1993. This slow use of EAWs together with the EAW sunset rule only allows 100,000 tons of EAW to be converted into EAs.

In this case, all participants elect to be placed in the EA fishery in 1995 and 1996. Therefore, with the reduction in TAC there is no OA fishery in these two years.

Table II. DAP Grows Rapidly

						EA	W
Year	TAC	DAP	JVP	EA	<u>0A</u>	Avail	Used
1989	1.2	0.4	0.8			0.4	0.0
1990*	1.2	1.2	0.0	1.0	0.4	0.4	0.0
1991	1.4	1.4	0.0-	1.0	0.4	0.4	0.0
1992	1.6	1.6	0.0	1.14	0.46	.0.26	0.0
1993	1.8	1.8	0.0	1.27	0.53	0.13	0.1
1994	1.8	1.8	0.0	1.4	0.4	0.0	0.1
1995	1.4	1.4	0.0	1.4	0.0	0.0	0.1
1996	0.8	0.8	0.0	0.0	0.0	0.0	0.1

*Year in which EAs are established.



Proposal: Groundfish Trawl Individual Fishing Quotas

This program would begin the first year of full domestic processing in the groundfish fisheries off Alaska. In that year IFQs would be issued to harvesters and processors. An IFQ would be denominated in fractions of the total allowable catch for the species in question. The IFQ would be freely transferable, would grant the right in perpetuity, and would be permanently designated as a "harvest IFQ" or a "processing IFQ." Either side in the transaction could use up quota, but for a sale to occur one side or the other must use the quota. It may be necessary to limit the amount of quota that can be held by a single entity.

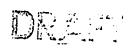
ALLOCATION OF IFQs

Quota would be allocated equally between fishermen and processors. Factory trawlers and vertically integrated companies would receive quota as both harvesters and processors. Allocation would be made on the basis of participation in the domestic fishery. (DAH for fishermen, DAP for processors)

Harvesting quota would be allocated on the basis of the average of the percentage of the total domestic harvest taken by the vessel for each year from the beginning of the harvest record through the last year during which JVP operations occurred. The choice of the year that the record begins could be subject to negotiation among the harvesters. It could be the year in which a certain threshold was reached, such as when fifty percent of the TAC in a fishery was taken by domestic fishermen. An earlier date would favor JV fishermen and a later date would favor factory trawlers and those who have entered the fishery recently.

Processing quota would be allocated in a manner identical to that used for harvesting quota with the exception that the historical record would not begin until January 1, 1989.

The following table outlines the calculation of IFQ to an operator participating in a fishery where the TAC is assumed to be 1,000,000 mt. The historical record is assumed to begin in 1985, at which time DAH is equal to one half of TAC. It is assumed that DAH grows at 250,000 mt per year and that DAP grows at 50%/year from a base of 100,000 mt in 1985. It is also assumed that the operator catches (processes) 10,000 mt each year.



			PROCESS/	
YEAR	DAH	DAP	HARVEST	PERCENT
	(1	,000s of mt))	
1985	500	100	10	2
1986	750	150	10	1.33
1987	1,000	225	10	1
1988	1,000	337	10	1
1989	1,000	505	10	1
1990	1,000	758	10	1
AVERA	.GE			1.22
	ALLOCATION:	FISHERMAN		.61
		PROCESSOR		.82
		FACTORY TRA	WLER	1.43

Under this system, fishermen who held quota would sell to processor who did not hold quota. The price paid for the fish would, of course, be set by market forces, but these would act in such a way so as to transfer net margins (above a market rate of return on capital) from both the harvesting and processing to the fisherman. It is as if the fisherman owned the fish and could protract through a competitive bid for the processing. Processors holding quota would purchase fish from fishermen who held no quota. The price paid would again be set by market forces, but these forces would tend to set the price in such a way so as to transfer nearly all net margins (above a market rate of return on capital) to the processor.

Under this system there is, and would always be, an open entry harvesting sector in that fishermen without quota could sell to processors with quota.. Price paid for the fish delivered by this sector would be lower than that paid to the fishermen who held quota, but the price would be no lower, relative to costs, than it would have been under a traditional open access system.

The only sector that would need to hold or lease quota in order to operate would be factory trawlers and vertically integrated operations, however the system of allocation whereby such operations receive credit for both the harvesting and processing would mean that such operations would not suffer from a lack of quota.

The IFQs would last in perpetuity and would be freely transferable and leasable. A limit would be placed on the amount of ITQs that could be held by any one operator in a fishery.

Proposal: Two-step Groundfish Access Limitation

Under this system, step one is the issuance of a groundfish license to owners of all registered U.S. vessels harvesting groundfish in the EEZ off Alaska during the base period, 1985 - 1987. Each license would name one vessel authorized to fish groundfish. Licensees would include factory trawlers, coastal trawlers, joint venture trawlers, longliners, and other vessels using legal gear to land pollock, cod, sablefish, soles, flounders, Atka mackerel, rockfish, or other groundfish with the exception of halibut. Floating processors, motherships (of U.S. or foreign flag), tenders, and cargo vessels would not receive groundfish licenses.

Any vessel owner intending to harvest groundfish, or to deploy any gear normally targeting on groundfish species must possess a groundfish license. Penalties and fines for fishing without a license would have to be established at a level sufficient to deter cheating.

Each vessel licensed would be assigned to one of the following classes: hook and line, or pot fishing vessel; trawl vessel delivering to shoreside or at-sea processor, factory trawler of less than 200 feet in length, factory trawler of 200 to 300 feet in length; or factory trawler of greater than 300 feet in length. Designation of class of vessel would be based upon registration records and legal documentation of fish landings during the base period. Vessels with records showing more than one-class (e.g. a vessel using both longline and trawl) would have a special license naming both gear types.

Owners of vessels not fishing during the base period for one of the following reasons would have a right to apply for a groundfish license within the first twelve months of the program's enactment: (1) vessel was fishing in a different fishery (e.g. Tanner crab) or elsewhere (e.g. Pacific coast) but had a history of fishing groundfish off Alaska prior to January 1, 1985, (2) vessel was not yet operational during the base period but was in construction for entry to Alaska groundfish fishery.



The groundfish licenses would be transferable by private transaction among vessels within classes, allowing new vessels to enter the fishery as another vessel exits. License transfers would be registered with the NMFS Regional Offices.

In addition to registering vessels, buyers of groundfish would need to be licensed so that records can be kept of all sales and purchases. Foreign and domestic buyers would be required to maintain and periodically submit records of quantity, condition, and species of fish bought. This information would be equivalent to existing State requirements for "fish tickets."

After the licenses are established, the system for monitoring and enforcement of groundfish catch quotas, prohibited species regulations, and other conventional regulations would be reviewed and upgraded as necessary. Scientific sampling requirements and on board observer coverage necessary for monitoring total catch, landings, and usage in at-sea processing plants would be established by joint committees of industry, NPFMC, and management agencies. A full plan for Coast Guard surveillance of foreign and domestic vessels at sea, state/Federal agency audits of catch records, radio and logbook reporting requirements, and on board observer protocols would be designed with the objective of providing accurate and complete information regarding harvests of groundfish by U.S. vessels in the EEZ. NMFS and/or the NPFMC would publish a complete and detailed document for review and adoption.

Once the catch monitoring system is upgraded to assure completeness and accuracy of species catch reports, the licensees would be issued individual shares of the total allowable catches. Documentation would be assembled regarding each vessel's catch of groundfish during the previous five years. A formula for determining shares would be developed for making an initial allocation. This formula could have some of the following features:

(1) Each licensee could choose the year of record for use in establishing his or her share;



- (2) Licensees not having an adequate catch record could choose to take a share equal to the class median. For example, a longliner having fished only a partial season due to mechanical breakdowns could opt for a share equal to the median catch by longliners of similar length.
- (3) Allocations of shares would be made for all species covered in the groundfish FMPs. Each share would be expressed as a percent of the current year's total allowable catch. the percent allocated to a licensee would be computed by dividing that licensee's catch of record by the Allowable Biological catch in the year of record. If the sum of the shares calculated by this procedure exceeds 100 percent, then each share will be reduced proportionately until total of the shares issued equals 100 percent.
- (4) For some underutilized species the shares allocated will total less than 100 percent of the TAC. Additional shares for these species would be issued on a first-come, first-served basis to original owners, licensees or to any new owners of groundfish vessels. The size of these new shares would be based upon the typical share already allocated to -license holders. To avoid non-productive speculative activity, new shares would be non-transferable for one year, and would be cancelled if the owner does not harvest a substantial portion of the share allocated within the first year.

Individual quotas would be transferable among groundfish license holders and to new vessel owners who have appropriately registered with the NMFS Regional Office. A computer-linked trading system would be established in all major fishing ports, having a continuously updated list of quota share holders and their share holdings. Actual catch data would not be publicly available during the fishing year in accordance with data confidentiality requirements. All transactions among license holders are required to be recorded expeditiously to the NMFS Regional Office (e.g. within one week of sale).



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Each participant in the IFQ program would be required to register with the NMFS Regional Office. This would permit screening of quota ownership for excessive accumulation of share and for foreign participants. To prevent excessive control of shares in the groundfish fishery, a limit would be placed on the total quotas a single entity could own in either the Bering Sea and Aleutian Islands area or in in the Gulf of Alaska.

The Americanization policy could be preserved with a slight modification to the program. The species quota would be subdivided into fully domestic and joint venture, with the JV share equal to TAC minus DAP. To encourage the phase-out of joint venture fishing, the joint venture vessel's initial quota shares would be calculated as a percentage of the overall joint venture allocation rather than of the TAC. Thus, as the domestic fishery expands and takes larger shares of TAC, the joint venture shares become smaller and smaller as the pool of JV allocation diminishes. To obtain domestic shares, vessels active in the JV fishery would apply for shares of species that are not already completely claimed for DAP fishing. Once obtained they would deliver these harvest shares to U.S. processing plants or to U.S. registered at-sea processors.

The costs of collecting and analyzing information for stock assessments and annual TAC determinations, as well as costs of routine monitoring and enforcement of quotas, should be shared equitably between the general taxpayer and private businesses operating in the groundfish industry. Several sorts of fees could be considered: a lump-sum license fee, an ad valorem quota share royalty, or a landings tax. The license fee is easiest to administer, as it involves simply collecting an annual amount from each licensed groundfish vessel owner. The ad valorem royalty would be calculated, like a property tax, as a percent of the value of groundfish shares held. The value of the fish could be based upon recorded quota share sales. Because the shares change hands regularly, the tax would be based upon registered shares held as of some particular date, possibly January 1.

The third option, a landings tax, is the most complicated to administer because it requires either (1) the tax be collected after each transaction (many of which may occur at sea), or (2) that a cumulative tax payment be collected periodically based upon cumulative groundfish landings values. The annual royalty on shares held is preferable to the tax on catch, because it is administratively simpler and because it creates far less incentive to distort

charges for fishing vessels is accepted, the funds collected would be placed in a fund designated for use in the groundfish monitoring and enforcement program.

388/DR-17

Proposal: Sablefish Longline License Limitation

- Α. Recipient:
 - Vessel Owner
- В. Eligibility:
 - 1. Type I License
 - (a) 5,000 lbs or more in legal landings in 1984, 1985 or 1986
 - 2. Type II License
 - (a) Less than 5,000 lbs in legal landings in 1984, 1985 or 1986
 - (b) First legal landings in 1987.

C. Conditions:

- 1. Type I Licenses:
 - (a) Transferable by
 - (1) permanent transfer, or(2) lease
 - (b) Area Specific
 - (c) Vessel size specific:

Class A: 0-40 ft.

Class B: 41-50 ft.

Class C: 51-60 ft.

Class D: 61-70 ft.

Class E: over 70 ft.

- (d) Limit on ownership
- (e) Renewable annually upon payment of a renewal fee.
- (f) Licenses last in perpetuity.
- 2. Type II Licenses:
 - (a) Non-transferable(b) Area specific

 - (c) Good for two years only
 - (d) Must be renewed for 2nd year with payment of a renewal fee.

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Sablefish License Limitation

This alternative includes two types of licenses: (1) fully transferable licenses issued to vessel owners whose vessels made landings of 5,000 pounds or more in 1984, 1985, or 1986; and (2) non-transferable licenses with a two-year duration issued to vessel owners whose vessels landed less than 5,000 pounds of sablefish in 1984, 1985 or 1986, or whose vessels made their first landings in 1987. The transferable licenses would be saleable or leasable whereas the non-transferable licenses would be neither. Both types of licenses would be area specific between the Gulf of Alaska, Bering Sea and Aleutian Islands. The transferable licenses would be designated by vessel size category:

Class A: 0 - 40 ft.

Class B: 41 to 50 ft.

Class C: 51 to 60 ft.

Class D: 61 to 70 ft.

Class E: Over 70 ft.

Combinations of two licenses from the same size category and area could be used to upgrade to a single license in the next larger size category. All size measurements are based on U.S. Coast Guard vessel registration lengths.

Challenges to eligibility determinations would be allowed during a specified appeals period. Appeals would be in writing and filed with the Regional Director of NMFS setting forth the reasons why the determination was in error. Challenges could only be brought forth on the basis of errors in total yearly landings and must be substantiated by landings documentation. Upon completion of the appeals period, licenses would be issued to qualifying owners upon payment of a nominal fee to cover administrative costs.

The vessel class-specific licenses would be freely transferable in that they could be sold or leased with or without a vessel. However, they would have to be used with a vessel equal to or smaller than the size class of issue. No person or entity could own, lease, or use more than one operating transferable license per area. It would be possible for an entity to own a maximum of two licenses per area but only one would be usable during the year. All licenses

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would be reissued yearly with a minimal fee being charged to cover administrative costs.

Vessel size classes would exist as a means of controlling expansion of effort in the fishery. The only way an entity could expand the size of a vessel would be to either buy a new license for a larger vessel size or to own two licenses of the same size class and area and trade them in to NMFS for one license of the next larger size class in the same area. This combination of licenses would, over time, reduce the number of vessels in the fleet, although it might not have the same effect on overall fishing capacity.

Non-transferable licenses would be issued to those qualified vessel owners who did not qualify for transferable licenses. The non-transferable licenses would not be size specific nor would they be saleable, leasable, or combinable. After the second year, no new non-transferable licenses would be reissued. All owners of non-transferable licenses who wished to continue longlining for sablefish would have to own a transferable license, of the appropriate size category, in order to fish after the second year.

Institution of a license limitation system would require increased administrative costs to track license ownership. NMFS would have to monitor ownership and control of the licenses to ensure that no more that two licenses in one area were controlled by any one entity. License checks would also be made at-sea and dockside.

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Sablefish Longline Individual Fishing Quota Proposal:

- Α. Recipient:
 - 1. vessel owner; or,
 - 2. vessel operator, or,
 - 3. both.
- В. Eligibility:
 - 1. Legal landings of 1,000 lbs or more in any one year, 1984-87.
 - 2. IFQs would be based on an average of the two best years' harvest during the period 1984-87.
- C. IFQ Conditions:
 - 1. Issued by area
 - 2. Issued as a % of area TAC
 - Transferable
 - (a) permanent(b) leasable
 - 4. Limitation of amount of IFQ that could be owned
 - Renewable annually upon payment of a renewal fee 5.
- D. Starting Date:
 - 1. January 1, 1989.

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Sablefish Longline Individual Fishing Quotas (IFQs)

This alternative would consist of individual rights to fish in the sablefish longline fishery being issued to qualified participants. The harvest rights would be denominated as a percentage of the longline sablefish TAC and would be granted based on performance in the years 1984 through 1987. They would only be issued to those participants landing 1,000 pounds or more in one of those four qualifying years. The rights would be fully transferable, that is leasable and saleable, in whole or part. Each IFQ would be specified by management area: Southeast Outside/East Yakutat, West Yakutat, Central, and Western Gulf of Alaska, Aleutian Islands, and Bering Sea. Only holders of IFQs would be allowed to land longline-caught sablefish. Qualified recipients could be:

- 1. Vessel owners, or,
- 2. Permit holders with a history of legal landings, or,
- 3. A split of the IFQs between vessel owners and vessel operators.

Annual sablefish longline landings would be totaled for each permit holder and/or vessel owner. Each entity (permit holder or vessel owner or both, depending on the option chosen) would have their two best years landings averaged for each area. Vessels with multiple owners would have only one average. If landings were made in only one of the four years then that year's landings would be divided by two.

Averages from all qualified entities for each area would be added together to arrive at area totals. These area totals would be larger than the total of landings in any one year. Percentages of each area total would then be determined for each qualified entity by dividing their total by the area total. If both vessel owners and permit holders were considered eligible, the previous procedure would be conducted for each group. Then, each individual percentage would be multiplied by the respective group allocation percentage.

Each qualified recipient would be sent a notice explaining how the IFQ system would work. Each would also receive a list of their individual landings, average of two best years for each area, and the preliminary percentage of TAC they would be entitled to in each management area.



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Those receiving entitlements would have the right to challenge their level of entitlements during a specified appeals period. Challenges could only be brought on the basis of errors in the data and would have to be substantiated by landings documentation. Appeals would be in writing and filed with the Regional Director of NMFS setting forth the reasons why the determination was in error.

In the case of multiple owners of single vessels (including companies, corporations, partnerships, etc.), owners would automatically be allocated IFQs based on the social security number and name registered with the United States Coast Guard. It would be incumbent upon the owners, outside of the appeals process, to rectify any differences between this method and actual vessel ownership percentages.

A limit would be placed on the amount of IFQs a single entity could own. In order to not penalize any highliners, the limit could be set at the highest amount of IFQ any recipient received at initial issuance.

After the specified appeals period, all individual entitlements would be added together, final percentages of the TAC by area determined for each qualified recipient, IFQs for each recipient determined based on that year's TAC, and IFQ entitlements mailed to each recipient. Each recipient would be charged a nominal fee to cover administrative costs.

The IFQs would be reissued each year to legal owners of the harvesting rights upon payment of an annual administrative fee. These owners would be tracked through records submitted to NMFS. Annual poundage values of IFQs would be based on annual TACs. This means that as area TACs vary from year to year so would the poundage value of each individual IFQ entitlement.

IFQs would be totally transferable in whole or part by lease or sale. That is, an IFQ holder would have the option of fishing some or all of his IFQs, selling some or all of them to one or more entities (including corporations and partnerships), leasing some or all of them to one or more entities, or any combination of the above. It would be possible for a private venture to

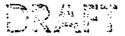




establish a trading system for IFQs. All transfers would have to be reported to NMFS.

Any person or entity landing sablefish by longline or who processes or buys longline-caught sablefish would be required to have a federal fishing permit which would be issued annually for a nominal fee to cover administrative costs. This permitting process would aid in tracking IFQ landings and in enforcement. In addition, any entity landing longline-caught sablefish would be required to obtain, and register with NMFS, IFQs equal to the amount of sablefish landed.

Any landings tracking system would be designed to include fishermen, buyers, processors, and managers in the development phase in order to ensure its acceptability and workability. Since IFQ management would allow the harvest of distinct amounts of sablefish, it would be necessary for NMFS to keep track of this harvest for catch limit management reasons and to protect the individual harvest rights of those obtaining allocations. The ability to track IFQ harvests through the processing sector and into the wholesale sector could greatly assist in the enforcement of IFQ use.



FUTURE OF GROUNDFISH COMMITTEE MEMBERSHIP

Nancy Munro, Chairperson

Joseph Blum

Frank Bohannon

Bart Eaton

Dave Fraser*

Dave Harville*

Victor Horgan, Jr.

Gordon Jensen

Brian Kelly

Mark Lundsten*

Mel Morris*

Wally Pereyra*

Kris Poulsen

 \star Have indicated willigness to serve on new FOG committee.

January 19, 1989

The following is a composite of several motions passed by the North Pacific Fishery Management Council on January 17, 1989 on Agenda item C-4, Future of Groundfish.

The North Pacific Fishery Management Council intends to take public comment at its April meeting on all aspects of the following proposal prior to taking final action.

The Council would establish under this proposal a cut-off date of January 16, 1989, after which vessels not in the pipeline may or may not be considered by the Council as eligible for participation in the fisheries under the Council's jurisdiction (including halibut and crab).

For the purposes of the cut-off, a vessel in the pipeline is defined as one which:

- a. is currently participating in any fishery under the Council's jurisdiction, e.g. catcher/processor, independent trawler, longliner, pot vessel, etc;
- b. is under construction or has recently been constructed with full intent to operate in the fisheries under the Council's jurisdiction; or
- c. a major investment, i.e., 20 percent of the delivered cost, has been made to design, construct and operate in the fisheries under the Council's jurisdiction.

In addition, the Council voted to expand the terms of reference of their Sablefish Management Committee to include all groundfish, halibut and crab species under the Council's jurisdiction in the Bering Sea and Aleutian Islands and the Gulf of Alaska. The committee, along with Council staff and appropriate contracted organizations, is to develop a management scenario for each of three alternatives -- status quo, license limitation and individual fishing quotas. These scenarios would address the major factors which must be considered in implementing any management plan, such as qualifications criteria for any allocation of licenses or quotas, duration and transferability, nationality and concentration of ownership, administration and enforcement, and cost.

If the Council adopts a cut-off date in April this action would be part of any manageent regime brought before the public for further comment. After public comment the Council would adopt, amend or reject the plan as it deemed appropriate.

Agenda C-4 Supplementae

January 12, 1989

Mr. John G. Peterson, Chairman North Pacific Fishery Management Council 605 West 4th Avenue Anchorage, Alaska 99501

RE: FOG Process

Dear John:

The purpose of this letter is to propose a four-step roadmap for consideration by the Council in dealing with the FOG issue. This proposal comes out of our deep concern that unless some immediate steps are taken to stem the unbridled, rapid growth which is presently occurring in the groundfish and crab fisheries, and institute some rational means of managing these fisheries, the industry and the Council are going to be confronted with enormous economic and management difficulties in the near future.

The impact of this rapid growth in production capacity became shockingly apparent at the last Council meeting with the dramatic rise in U.S. processor (DAP) demand for groundfish in the BS/AI which exceeded 1.7 million mt for 1989. This growth in DAP demand caused a precipitous drop in JVP from almost 1.3 million mt of catch in 1988 to 290,000 mt initial JVP in 1989. This growth in domestic capacity continues unabated.

The critical nature of the problem created by this excess capacity in the North Pacific fisheries was detailed by the FOG Committee in their June 1988 report. FOG concluded that right now there is clearly excess harvesting capacity for halibut, sablefish and crab, and that the other groundfish fisheries have more harvesting capacity than necessary for a year-round season. FOG summarized its conclusions by stating:

"In sum FOG believes that the current management system may not prevent overfishing, is not promoting efficient utilization, is not providing optimum benefit to the nation, is not reducing bycatch or the impacts of one fishery on another, is not promoting economic health to the industry, and is not strengthening fisheries research."

FOG went on to state that the current management system is not presently providing a framework for the U.S. industry to be competitive in the world groundfish markets within the principle of sound biological management; and that FOG believed that the complexities of the near future will exacerbate the situation.

We share this concern expressed by FOG and feel that appropriate action must be taken now. In consideration of the complexities and importance of this issue and after weighing the various alternatives, we have concluded that the most rational first steps for the Council to take in solving these problems would be to:

- (1) declare an immediate cutoff date for participation in all fisheries under the Council's jurisdiction after which new commitments to these fisheries may or may not be given consideration for permanent rights to participate in these fisheries; and
- (2) commit the Council staff to prepare a complete management plan for each of three management alternatives - status quo, license limitation and individual quotas. This work would be carried out by the Council staff with appropriate technical support by outside organizations. As such we see no need to reconstitute and reactivate the FOG Committee at this time.

We feel strongly that the Council must take action at this meeting. With the present rapid pace of growth in our groundfish and crab fisheries, the consequences of doing nothing are too onerous to permit further delay. Accordingly, we respectively request the Council to adopt the FOG roadmap as outlined in the attached proposal.

PROFISH INTERNATIONAL INC FIV Muir Milach

Profish INTERNATIONAL INC FIV Muir Milach

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Arctic Hloske Fisheries CovP. Arctic Storm, Inc.

Andrew Migh Seas Fish Asa, Getersburg Nearl Courses

R. Bern Fisher

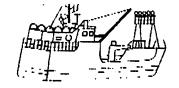
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FOG Management Proposal

The following represents a framework proposal for consideration by the North Pacific Fishery Management Council in dealing with the question of long term management of the Gulf of Alaska and Bering Sea/Aleutian Island groundfish resources in the face of a rapidly expanding fleet targeting on those resources.

- 1. Establish an immediate cut-off date of January 16, 1989 after which, vessels not in the pipeline may or may not be considered by the Council as eligible for participation in the Fisheries under the Council's jurisdiction.
- 2. For the purposes of the cutoff, a vessel in the pipeline is defined as one which:
- a. is currently participating in any fishery under the Council's jurisdiction e.g. factory trawler, independent trawler, longliner, pot vessel, etc.;
- b. is under construction or has recently been constructed with full intent to operate in the fisheries under the Council's jurisdiction; or
- c. a major investment i.e. 20 percent of the delivered cost, has been made to design, construct and operate in the fisheries under the Council's jurisdiction.
- 3. Expand the terms of reference of the Sablefish Management Committee to include all groundfish, and possibly crab species, under the Council's jurisdiction and develop together with the Council's staff and appropriate contracted organizations, a management scenario for each of three alternatives --- status quo, license limitation and individual quotas. These scenarios would address the major factors which must be considered in implementing any management plan such as qualifications criteria for any allocation of licenses or quotas, duration and transferability, nationality and concentration of ownership, administration and enforcement, and cost.
- 4. Defer any action on reconstituting or reactivating the FOG Committee. This committee has performed its function of reviewing the problem and making recommendation on possible solutions for the Council to consider. The task of "putting meat on the bones" of the three management alternatives can best be done by the Council staff with outside technical support as needed. Should the Council deem it desireable in the future to have industry input this could be obtained from the existing FOG committee, a new FOG committee, industry associations, public-at-large or a combination of these groups.



4385 Yaquina Bay Road • Newport, Oregon 97365 • (503) 265-9307 P.O. Box 2089 • Kodiak, Alaska 99615

1/17/89

JOHN PETERSON & COUNCIL MEMBERS CHAIRMAN, NPFMC VIA FAX SHERATON HOTEL ANCHORAGE, AK.

RE: CUT-OFF DATE

DEAR JOHN:

I AM EXTREMELY DISAPPOINTED THAT YOU HAVE ALLOWED A DECISION OF SUCH MAGNITUDE (A MORATORIUM) TO BE VOTED UPON BY THE COUNCIL. I DO NOT BELIEVE THAT ADEQUATE NOTIFICATION WAS GIVEN TO THOSE OF US WHO ARE VERY MUCH INTERESTED IN THE IMPACT SUCH A RULING MIGHT HAVE ON US AND OUR LIVELIHOODS.

I'M NOT REFERRING TO THE LEGALITY OF THE VOTE: I'M REFERRING TO A SENSE OF FAIR PLAY AND HONESTY. I HOPE THAT YOU WILL RECONSIDER THE STEP AND ALLOW FOR A MORE PROPER NOTIFICATION AND REVIEW PROCESS.

SINCERELY.

GARY (L. HAINTER

Naparyarmiut

City of Hooper Bay P.O. Box 37 Hooper Bay, Alaska 99604 (907) 758-4311

January 16, 1988

PROPOSAL

From: Mark springer, Assistant to the Mayor

That the Council establish a committee to study the issues of Decision Point VIII of the Sablefish Management Committee regarding coastal Community access to and regulation of fishery participation. In addition, the committee should apply these policy issue deliberations to the overall FOG/LE process.

Committee composition should include representatives of Island and coastal communities with developing fisheries interests.

Naparyarmiut

City of Hooper Bay
P.O. Box 37
Hooper Bay, Alaska 99604
(907) 758-4311

January 16, 1988

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To: North Pacific Fisherips Manusement Council From: Mark Springer, Assistant to the Mayor

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