# Additional Section of Final IFQ Program Review: December 2016 Draft

## Section 3.1.3 Benefits and limitations of consolidation limits

The IFQ Program includes objectives that speak to both facilitating the reduction of overcapitalization that had occurred within the fishery previously, while also attempting to mitigate consolidation. These inherently conflicting ideas clearly demonstrate a desire to balance the production efficiency that could be gained through the types of cooperation and consolidation that a catch share program allows for, with the types of social and economic benefits that come from having a larger and more diverse group of stakeholders participating in a fishery.

Section 2.3.5.5 discusses estimates of the production efficiency costs associated with some of the provisions implemented to limit consolidation in the IFQ Program. In response to this information in the draft IFQ Program Review, the Council requested an additional section which describes the benefits and limitations of consolidation limits and entry-level provisions with respect to overall program success and fleet consolidation that has taken place since IFQ Program implementation.

Therefore, this section provides a qualitative discussion of the benefits of those QS provisions and use caps and their effectiveness, consolidating much of the discussion provided in other sections of this review. Also in response to the Council’s request, this section provides a qualitative discussion of the limitations of these provisions with respect to limiting consolidation within and providing entry into the fixed gear halibut and sablefish fisheries following IFQ implementation. Examining the extent to which consolidation or entry would have occurred in the IFQ fisheries in the absence of these provisions or otherwise quantifying the impacts of these provisions would require more rigorous analytical methods and is beyond the scope of this IFQ Program Review.

*Benefits of provisions intended to limit consolidation and provide entry opportunities*

Although open QS markets may have led to greater production efficiency as described in Section 2.3.5.5, there are many other types of benefits associated with IFQ Program provisions that were intended to limit consolidation. These benefits to limiting consolidation include providing for entry opportunities, continued employment, more diverse types of employment (i.e. part time work), and a larger, broader range of stakeholders that can increase economic activity among many communities. To the extent possible, this section discusses the intended benefits of the provisions instituted in the IFQ Program to limit consolidation, including: the block program, vessel IFQ and QS use caps, QS class designations, and fish-up and fish-down provisions.

The block program was instituted to constrain consolidation in the IFQ fisheries, to ensure that small amounts of QS would always be available on the market, and to maintain the diversity of the IFQ fleet (Sections 1.2.4.3.2, 1.2.4.5.3, and 2.6.2.2). Given that the majority of QS holders across all IFQ areas in both fisheries hold blocked QS (Table 2.6.-7; Table 2.6-8) and that regulations limit the amount of QS blocks and blocked and unblocked QS that QS holders may hold, there is indication that consolidation in the IFQ fisheries is in fact being constrained by the block program. Because the block program provided that QS equivalent to 20,000 pounds or less (in 1994 pound equivalents) is non-severable for the purposes of transfer, it also ensured the greater availability of small amounts of QS on the market relative to a scenario in which the block program did not exist.

Thus, the block program has likely constrained consolidation and provided additional and continued opportunities in several ways. The program ensures that new participants may enter the IFQ fisheries with smaller initial capital investments than maybe would have been possible if this particular program did not exist in the IFQ fisheries. Without the block program, QS holders would have been able to consolidate larger QS holdings, and, therefore, it is likely that the amounts of QS available on the market would have been in larger bundles and more difficult to access without more substantial startup capital. Furthermore, by ensuring the availability of small amounts of QS on the market, the block program has likely provided for the continued participation of part-time participants in the IFQ fisheries, or those whose fisheries investment portfolio is largely comprised of other fisheries and who use the IFQ fisheries to supplement their income from these other fisheries. This may also have contributed to maintaining fleet diversity by allowing smaller vessel class participants to remain in the fishery, given that small vessel class owners tend to have smaller QS holdings than owners of larger vessels (Section 2.3.6) and that the amount of IFQ that a small vessel operator needs to make an economically worthwhile trip would tend to be smaller than a larger vessel operator.

The vessel IFQ and QS use caps were intended to prevent excessive consolidation of harvesting privileges (Sections 1.2.4.5.4, 2.3.6.1.3, and 2.3.6.2.2). There is indication that the vessel IFQ and QS use caps have largely not been limiting in the IFQ fisheries, with few QS holders and vessels within 10% of the caps (Figures 2.3-15 through 2.3-18; Tables 2.3-18 and 2.3-19). This may be because QS holders are constrained in acquiring additional QS by the block program before they can be constrained by the use caps. The most limiting cap seems to be the Southeast sablefish vessel IFQ cap with 21% of vessels in that area within 10% of the Southeast-specific cap (Figure 2.3-18). To the degree that any of the vessel IFQ and QS use caps have been constraining, they would have provided for the greater availability of QS on the market relative to a scenario in which they did not exist, allowing for lower QS prices. These factors combined would have positively contributed to new entry opportunities.

The vessel class designations for catcher vessel QS in the IFQ fisheries were intended to maintain the diversity of the IFQ fleets and to prevent a potential redistribution of fishing privileges towards the larger class (Sections 1.2.4.4.1 and 2.3.5). These QS class designations have likely provided greater participation opportunities for small vessel class owners than would have been possible under a scenario in which the QS market was not restricted by vessel class, given that larger vessel class QS tends to trade for a higher price than smaller vessel class QS indicating a higher willingness to pay for QS within the larger vessel class sector (Section 2.3.5). Furthermore, these constraints may have provided for more QS on the market than would have been available under fewer restrictions, because it limited consolidation within each vessel class and area. As with the other two limits on consolidation discussed above, the greater availability of QS on the market would have provided for a lower relative price and increased entry opportunities. Length-specific catcher vessel QS designations also provided for continued opportunities for part-time participants in the IFQ fisheries.

The fish up and down provisions allowed for more movement of IFQ across the vessel classes (Sections 1.2.4.4 and 2.3.5.2), which could have had contrasting effects on consolidation, the QS market, and entry opportunities. These provisions essentially opened up new QS markets for IFQ participants, which may have provided for greater entry opportunities. This would have been especially true for owners of the smallest class vessels, who under the fish down provision may purchase QS from all of the other classes for harvest on their vessels. (The availability of the fish up provision is restricted to Areas 3B, 4B, and 4C). However, by opening up QS markets across the classes, these provisions could have also contributed to greater consolidation of QS, although this consolidation would have been limited by the block program and use caps.

Although this section does not attempt to measure the degree to which the block program, use caps, and vessel class designations for catcher vessel QS have constrained consolidation, these provisions have likely limited the consolidation that would have otherwise occurred and provided for broader participation in the IFQ fisheries. This broader participation is inclusive of not only a greater number of participants (i.e. QS holders) but more diverse types of participants including small vessel owners, part-time participants, and new entrants. In turn, this broader participation likely has provided a greater number of employment opportunities for crewmembers, although many of these opportunities could be for part-time work. Thus, the benefits of participation in the IFQ fisheries have likely been dispersed across a greater number of communities due to these provisions. These benefits would include the income brought into those communities by QS holders, vessel owners, and crewmembers participating in the IFQ fisheries, which would support local businesses. To the degree that IFQ participants are more likely to land their fish in their community of residence, broader participation may also have provided for IFQ landings across a greater number of communities. As noted in Section 2.7, a community can derive economic benefits from landings in its port as a result of several factors, including tax revenues, local employment at the processing plant, expenditures within the community by processing workers, the processor’s expenditures on fuel, electricity, water, etc., and expenditures by marine support service businesses within the community resulting from vessels making landings in the community.

*Limitations of provisions intended to limit consolidation and provide entry opportunities*

As previously noted, it is inherently difficult to try to examine the extent to which provisions intended to limit consolidation and provide entry opportunities in the IFQ Program did or did not achieve their objectives. Most importantly, this is because the intent was not to wholly constrain consolidation in the fixed-gear halibut and sablefish fisheries. The IFQ Program was implemented in part to address overcapitalization in the fixed gear fisheries and its consequences (increasingly shorter fishing seasons, overharvests, safety issues, lost and/or abandoned gear, etc.). Therefore, some consolidation was expected and even desired at the implementation of the program. The degree of that desired consolidation was not articulated in the original EIS for the program (see Section 2.3.6).

In addition, truly measuring the effectiveness of the provisions set to limit consolidation would require the development of appropriate counterfactuals of the IFQ fisheries without these provisions in place. Consolidation and entry would have to be measured in these counterfactual fisheries, which is out of the scope of this program review. Instead this section briefly describes the types of factors that may have affected the impacts of provisions intended to limit consolidation and provide entry opportunities.

There were several types of exemptions and allowances built into the IFQ Program that likely made the provisions intended to limit consolidation less effective in this goal. In particular, tying the hired master use privilege to the initial QS recipient rather than the initially allocated QS provided the opportunity for initial recipients to purchase additional QS from which the resultant IFQ could be harvested by a hired master. This would have created competition in the QS market that maybe otherwise would have not existed, leading to higher QS prices and fewer relative entry opportunities. Furthermore, the hired master provision has allowed initial recipients to retain their QS past the point at which they are able or willing to fish their IFQ themselves, which would imply less QS available on the market relative to a scenario in which hired master use was more restricted and therefore higher QS prices and less entry.

In addition, allowing initial issuee QS holders to be ‘grandfathered’ into the program above the QS use caps, based on their pre-program fishing history could be seen as a weakness in the provision’s objective of limiting consolidation. Table 2.3-18 demonstrates that 9 halibut QS holders were originally granted QS above the Area 4 use caps. Table 2.3-19 demonstrates 8 sablefish QS holders were issued QS over the Southeast QS use caps and 10 sablefish QS holders were granted QS over the all area QS use caps. This special allowance, paired with the additional privilege of initial issuees (outside of Southeast Alaska) to use hired masters to harvest their QS, creates a greater incentive for QS holders to maintain their holdings. These original privileges are not retained when QS is transferred to a new holder. Particularly in the sablefish fishery, some of these initial holdings represented more than double the QS use cap (in one case four times the use caps; 4% of the QS pool for all areas), which may have had implications for availability of QS for new entrants. It should be noted however, that Table 2.3-18 and Table 2.3-19 also demonstrate the drop in the number of QS holders that remain holding QS over the QS use cap limits.

External factors (outside the implementation of the IFQ Program) have also driven the amount of consolidation that has occurred in the fishery. This includes the declines in the TACs that have occurred since the mid-2000s. Individuals faced with less fishable pounds of IFQ may seek cooperative arrangement to minimize their expenses and continue to earn a profit, thus resulting in greater consolidation at the vessel level. Additional changes in other fisheries in which IFQ participants participate (e.g., salmon), and changes in the opportunity costs of time can contribute to the amount of consolidation that occurs. For example, given that many IFQ participants derive the majority of their income from other fisheries (see discussion in Sections 2.4.1 and 2.6), changes in these other fisheries that would affect earnings expectations, like a stock decline or decrease in ex-vessel prices, would have implications for the IFQ participants' viability in the IFQ fisheries. Changes in alternative employment opportunities, such as new construction projects demanding labor or skilled workers, could also contribute to consolidation as participants may sell their halibut or sablefish QS in pursuit of other work. These exogenous factors may interact with IFQ Program-related factors to drive more or less consolidation from occurring. For example, given the declines in TAC, participants may be looking for ways to minimize expenses, such as fishing their IFQ on someone else's vessel. Thus, stakeholders have testified that some vessel IFQ caps have become more constraining. If this provision was not in place, perhaps more consolidation would occur under these conditions.

There are many other provisions that could be implemented or tightened if the Council's objective was solely to limit consolidation. However, as discussed, this is not the only policy objective for the IFQ Program. It is in the purview of the Council and the stakeholders in the fishery to understand the tradeoffs involved in balancing benefits of limits on consolidation with the benefits that consolidation can bring. It is a policy decision of whether *the right amount* of consolidation has occurred, if the degree of investment required to enter the fishery is appropriate, and how to use (or not use) the policy tools available to influence the characteristics of the fisheries.