

EXECUTIVE SUMMARY

This Regulatory Impact Review (RIR) was prepared to evaluate the economic and socioeconomic effects of a proposed Federal regulatory amendment, as required under Presidential Executive Order 12866. The proposed amendment would be to revise the Gulf of Alaska Community Quota Entity (CQE) Program, which was approved by the North Pacific Fishery Management Council (Council) in 2002 and implemented by NMFS in 2004, under Amendment 66 to the Gulf of Alaska (GOA) Fishery Management Plan. The program was developed in order to allow a distinct set of small, remote coastal communities located in the Gulf of Alaska to purchase catcher vessel quota share (QS) under the existing halibut and sablefish Individual Fishing Quota (IFQ) Program.

The IFQ Program limits access to the halibut and sablefish fisheries to those persons holding quota share in specific management areas. Quota shares equate to individual harvesting privileges, given effect on an annual basis through the issuance of IFQ permits. The Council and NMFS intended the IFQ Program to improve the long-term productivity of the halibut and sablefish fisheries, while retaining the character and distribution of the fishing fleets, as much as possible. During the development of the IFQ Program, the Council built in provisions to address concerns regarding transferability and the goal of preserving an owner-operated fleet. Among other things, the Council was concerned about consolidation of ownership and divestiture of coastal Alaskans from the fisheries. One such provision was to tag the quota issued to small operators as "blocks." Small initial allocations of halibut or sablefish QS were identified as "blocked," meaning that they must be sold as a unit. The purpose of the QS block provision was to ensure that smallest, most affordable QS would remain available to a part-time fleet of smaller operators in order to maintain some of the fleet diversity that existed under open access. The Council placed restrictions on how many blocks of QS that an individual could hold. The purpose of block restriction was to check the ability of operators with greater capital or operating efficiency to buy out the fishery access of operators who received small initial allocations.

Although many have benefitted from the IFQ Program, a significant number of quota holders in Alaska's smaller coastal communities chose to transfer their quota to others, or moved out of these communities. As a result of quota transfers, the number of quota holders and the total amount of quota held by residents of remote communities declined since the inception of the IFQ Program. In 2004, Under GOA Amendment 66, the Council revised the IFQ Program by adding the Community Quota Entity Program (CQE). The CQE Program allows a distinct set of GOA communities with few economic alternatives to purchase and hold catcher vessel QS, in order to sustain participation in the commercial halibut and sablefish fisheries. The annual IFQ resulting from this QS can be leased to community residents. The CQE Program was also intended as a way to promote ownership by individual residents, as individuals who lease annual IFQ from the CQE may gradually move into a position to purchase their own quota share. At the outset of the Program, it was thought that CQEs might have greater access to capital than individuals, so they might naturally move to buy up the small blocks of QS that are most desired by the same small operators whom CQEs were established to support. In order to preserve opportunities for individual QS holders, the Council included a restriction for certain areas that did not allow CQEs to purchase blocked QS of less than a minimum size. The small block provision currently restricts CQEs from purchasing "sweep-up" size blocks of halibut QS in Areas 2C and 3A, and sablefish QS in the Southeast Outside, West Yakutat, Central Gulf and Western Gulf GOA management areas.

This analysis examines two alternatives, one of which is the no action alternative:

Alternative 1: Status quo.

Alternative 2:

- Option 1: Allow CQE communities to purchase any size block of halibut and sablefish quota share.
- Option 2: Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of any CQE community.
- Option 3: Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of their CQE community.

The action alternative (Alternative 2) would revise Federal regulations to allow CQEs to purchase any size block of quota share from any QS holder, or from a subset of QS holders determined by the location of the holder's residence. Staff has completed this analysis under the assumption that other existing restrictions on CQE purchase of QS would remain in place under Alternative 2. These restrictions include: block restrictions, which limit each CQE to holding no more than 10 blocks of halibut QS and 5 blocks of sablefish QS in each management area; location restrictions, which allow only CQEs located in Area 2C to purchase and use 2C halibut QS, and do not allow CQEs located in Area 2C to purchase and use 3B halibut QS; vessel size restrictions, which preclude CQEs from purchasing D category halibut QS (for use on vessels $\leq 35'$ LOA) in Area 2C¹; and individual and cumulative QS use caps for CQEs.

For each affected management area, Table ES-1 summarizes the number of small blocks in the 2013 quota share pool and the proportion of the total QS pool that these small blocks represent. Table ES-1 also breaks out small blocks by vessel size category; over 90% of the small block halibut QS in Areas 2C and 3A are in Categories C and D ($\leq 60'$ LOA), and roughly 50% to 90% of small block sablefish QS are in Category C ($\leq 60'$ LOA). For the areas where block size restrictions apply, Table ES-2 lists the minimum size block that a CQE is allowed to purchase, as well as the 2013 IFQ harvest equivalent associated with a block of that size.

Table ES-1 Small QS blocks as a proportion of total QS and total blocked QS, by vessel category (2013)
Halibut

Area	Total Blocked QS	% of Total QS In Small Blocks	% of Blocked QS	# Small Blocks	# Small Blocks & QS by Category							
					A		B		C		D	
2C	42,162,115	26%	36%	963	9	151,533	22	399,863	476	8,720,747	456	5,943,636
3A	65,341,809	13%	37%	1,107	14	270,203	58	1,534,265	563	14,161,745	472	7,886,991
3B	24,957,727	16%	35%	336	3	49,003	49	1,230,349	229	6,189,494	55	1,200,785

Sablefish

Area	Total Blocked QS	% of Total QS In Small Blocks	% of Blocked QS	# Small Blocks	# Small Blocks & QS by Category					
					A		B		C	
SE	9,724,565	4%	28%	156	3	63,693	14	337,060	139	2,301,014
WY	6,919,091	5%	40%	122	8	143,026	23	557,997	91	2,034,729
CG	8,393,054	3%	37%	180	5	66,576	47	778,022	128	2,219,549
WG	7,193,424	4%	19%	59	9	257,960	22	558,805	28	536,601

¹ GOA FMP Amendment 94 is currently in the proposed rule stage, and would remove the restriction on CQEs located in Area 3A to purchase Area 3A D Category halibut QS.

Table ES-2 Small block size restrictions (QS units) and 2013 IFQ equivalents (lbs.)

Halibut

Area	QS Block Size	IFQ lbs. (2013 TAC)
2C	33,320	1,662
3A	46,520	2,776

Sablefish

Area	QS Block Size	IFQ lbs. (2013 TAC)
SE	33,270	3,539
WY	43,390	3,176
CG	46,055	4,029
WG	48,410	4,148

The quantitative analysis of Alternative 2 considers maximum potential impacts, meaning the analyst assumes that all eligible communities form CQEs and secure funding to purchase as much of the newly available small blocks as possible.

Under Option 1 of the action alternative, CQEs could, on aggregate, purchase the total amount of newly available small block QS without reaching the cumulative use cap for any area. In effect, though, the limit on the number of blocks that a CQE can hold in each area (10 halibut, 5 sablefish) would constrain CQEs from purchasing all of the available small blocks of halibut QS. This is true even considering that Alternative 2 would not allow CQEs to purchase Category D halibut QS in Area 2C, and some of the Category D halibut QS in Area 3A; the statement also considers that location restrictions would still apply, barring CQEs located in Areas 3A and 3B from purchasing Area 2C QS. If CQEs purchased up to their block limits, the maximum amount of QS units in community ownership would vary depending on which specific blocks they acquired, as each small block on the market contains a different amount of QS.

Table ES-3 Small block QS available for CQE purchase under Alternative 2, Option 1

	Area	# Small Blocks	Small Block QS	2013 IFQ lbs.	QS value (2011)
Halibut	2C	507	9,272,535	462,471	15,044,168
	3A	1,106	23,853,204	1,423,222	45,984,310
Sablefish	SE	156	2,701,767	287,361	7,209,884
	WY	122	2,735,752	200,275	5,129,034
	CG	179	3,064,147	568,079	12,969,251
	WG	59	1,353,366	115,970	1,547,035

Notes: Figures reported for Area 2C omit 455 small blocks of Category D halibut QS (296,440 IFQ lbs.); Figures reported for Area 3A include 471 small blocks of Category D halibut QS (470,584 IFQ lbs.), a portion of which is available exclusively to CQEs located in Area 3A communities.

Option 2 would expand the small block QS available to CQEs by the amount of QS that is collectively held in eligible CQE communities. At present, while small block holdings make up a significant portion of CQE community residents' holdings, this subset of small blocks is only a small fraction of the total small block QS. Assuming full participation, CQEs could collectively access the entire amount of newly available small block QS.

Table ES-4 Small block QS available for CQE purchase under Alternative 2, Option 2

	Area	# Small Blocks	Small Block QS	2013 IFQ lbs.	QS value (2011)
Halibut	2C	59	1,019,380	50,842	1,653,887
	3A	100	2,030,041	121,124	3,913,520
Sablefish	SE	13	118,580	12,612	316,440
	WY	4	56,263	4,119	105,483
	CG	6	135,043	11,815	269,732
	WG	3	39,005	3,342	44,587

Notes: Figures reported for Area 2C omit 76 small blocks of Category D halibut QS (40,113 IFQ lbs.); Figures reported for Area 3A include 55 small blocks of Category D halibut QS (61,671 IFQ lbs.), a portion of which is available exclusively to CQEs located in Area 3A communities.

Option 3 would expand the pool of quota available to CQEs by a modest amount in those CQE communities where residents presently hold small block QS. However, many eligible communities do not have any residents in possession of small block quota. Option 3 would not represent a change from the status quo in these communities. Of the 45 eligible communities considered in this action, 17 do not have any residents who hold halibut small blocks, and 31 do not have any residents who hold sablefish small blocks.

The qualitative analysis of Alternative 2 considers potential changes in access to fishery participation, potential effects on the market price for QS, and the socioeconomic trade-offs associated with shifting a portion of the QS pool from private to public ownership.--

Changes in Access to Fishery Participation

Easing restrictions on CQE purchase of QS would likely provide greater fishing opportunities to the residents of CQE communities by increasing access to lower-cost quota, though the extent to which this occurs will be shaped by CQEs' progress in securing the financial support necessary to take advantage of new opportunities. This may be a necessary condition for increased CQE participation, as CQEs currently face rising prices in the QS market without the benefit of initially allocated quota for use as an asset base in borrowing. Leasing quota from a CQE at favorable terms, compared to market lease fees, may aid new entrants in building up the financial base necessary to purchase individual QS in the future. In this sense, the program does not serve to discourage, but rather could facilitate, individual ownership of QS. Allowing CQEs access to purchase small block QS could also provide a currently lacking tool to keep fishery access in the community as initial allocation recipients voluntarily retire or reduce their active participation. If the rate of QS consolidation increases in the future, as a result of continued growth in QS prices, the CQEs' role in preserving remote community fishery access could become even more important.

Option 1 presents the largest opportunity for CQEs and CQE community residents to benefit by increased community quota ownership. However, CQE purchase of "outside shares" is likely constrained by the non-profits' current difficulty in financing open market transfers. If it is true that CQEs will rely on sellers who are motivated to see the QS remain in the CQE community, then the effective difference in the number of viable transactions available under Option 1 versus under Options 2 and 3 may not be large.

Some individuals could experience a negative impact if there is more competition on the market for affordable QS. The potential for residents of non-CQE communities to experience reduced available QS is not limited to Option 1, where CQEs could purchase newly available small blocks from the entire set of GOA communities. Under Options 2 and 3, QS held by CQE community residents may be transferred to CQEs whereas, under the status quo, it would more likely have entered to the open market. Similarly,

increased community QS ownership could reduce access to quota for CQE community residents who are looking to purchase individual holdings, especially if QS sellers demonstrate a preference for selling to CQEs.

Assessing the net effect of reduced quota availability for individual CQE residents is more nuanced compared to effects on non-CQE residents. CQE acquisition of QS that would otherwise have left the community would appear to be a clear net benefit, and one might assume that QS would only *necessarily* leave the community if there were no individual participants within the community willing to make a purchase. Shifting QS from individual to community ownership creates a reduction in the economic productivity of QS, as a substantial portion of gross fishing revenues goes to cover CQE administrative costs and debt service. On the other hand, a community member could view CQE acquisition as a public investment in the community's future. CQE residents may experience broader social and economic benefits if a CQE is successful in its mission to preserve a fishing economy and way of life in their remote community.

Effects on the Quota Share Market

Making small blocks of catcher vessel QS available to CQEs could cause an increase in transfer market prices. This price effect could occur through either of two mechanisms: price competition, and reduced supply of small blocks on the open transfer market.

Competition could increase the market price for small block quota if the new set of prospective buyers under Alternative 2, CQEs, can afford to pay as much or more for small block QS than the existing participants. Individual fishermen, including resident fishermen in CQE communities, may experience greater competition in the market for small block QS, which is primarily comprised of QS in the small vessel categories. This type of demand-driven price effect would impact both CQE and non-CQE community resident who are in the market for QS. However, considering their disadvantaged position as new entrants to the QS market with few financial assets, increased CQE demand for small block QS is unlikely to have a large impact on prices.

Market prices could also increase if the amount of QS on the open market is reduced. Easing restrictions on CQE purchase of small blocks could reduce the open market supply of small block QS available for transfer if a number of sellers are especially motivated to transfer their quota holdings to community ownership. This supply-side market impact may occur where CQE residents who are reducing their active participation in the fishery utilize the considered action to keep harvest access in their home community. The magnitude of this effect is difficult to determine, as one might imagine that those individuals who wish to transfer their QS to CQEs might never have put their small block quota on the open market under the status quo.

Overall, this analysis does not provide any strong evidence to predict a large near-term QS price increase that is directly attributable to any of the options considered.

Social and Economic Aspects of Community-Held Quota

Increasing CQE quota share holdings will likely bring about both social and economic trade-offs. Social benefits may include increased fishery participation for a specific set of relatively disadvantaged communities, as well as the securing of future harvest opportunities for new entrants or those participants at the margin sustained economically viable operation. These social benefits may be localized, by nature. Depending on the option selected, CQEs could potentially purchase QS from individuals residing in non-CQE communities who would not share in the socioeconomic benefits delivered by CQEs. While all QS transfers are voluntary, and no individual resident would be forced to cede QS to CQEs, some individuals may experience an indirect marginal decrease in their access to quota, compared to the status quo. The

CQE Program has been explicit since its outset in acknowledging that it could have distributional impacts.

In addition to fishery access in the present year, QS ownership also carries a future value (or risk, depending upon one's outlook on the future status of fish stocks, product prices and operating costs). For Option 1, again assuming that any transfer of QS to a CQE is done voluntarily and at a fair market price, the action alternative should not be viewed as a direct detriment to non-CQE residents who sell QS. Any future value that does not accrue to individual CQE or non-CQE residents because the quota transferred to a community ownership could be viewed as an indirect impact; however, this impact is of the sort that the Council has acknowledged in creating the CQE program.

From an economic perspective, facilitating community QS purchase comes at a cost, but provisions in the CQE Program also offer some operational efficiencies that are not present when all remote community QS is held by individuals. These economic benefits, such as the ability to fish QS "up" on more efficient vessels with greater crew opportunities, would mainly accrue to CQE community residents. In some sense, CQE QS ownership *must* present some special social or economic benefit in order to compensate for its direct cost, which also accrues mainly to resident CQE participants. CQE ownership is costly to any individual who possesses an opportunity to fish individually held QS, as leasing from a CQE typically requires a payment of around 45% of gross fishing revenues. As mentioned before, the limited track record of CQE participation does not allow the analyst to assess whether a large-scale shift from individual to community quota ownership would constitute a net economic gain to the residents of CQE communities.

Based on the analysis and criteria under Presidential Executive Order 12866, the proposed action does not constitute a significant regulatory action, recognizing that there may be distributional impacts among the various participants affected. CQEs are the only directly regulated entity under the proposed action, and the intended and anticipated effect is beneficial to those entities.

Supplemental Information

Section 2.7.2 – Alternative 2 (Pages 37-40)

Maximum potential effect of Alternative 2, Option 1 on halibut quota share available to CQEs

The following information is supplemental to the discussion of maximum impacts under Alternative 2, Option 1, which would allow CQE communities to purchase any size block of halibut and sablefish quota share (QS) from any current QS holder. Option 1 is the only considered action under which CQEs, at maximum participation levels, would be unable to purchase the entire amount of newly available small block QS; only *halibut* QS purchase opportunities would be constrained under this option.

Table 2-26 (Page 38) lists the total amount of small block halibut QS that is made available under Option 1, broken out by vessel class category. The discussion on Pages 38 and 39 notes that while Option 1 would trigger neither individual nor cumulative CQE use caps¹, the maximum CQE purchase opportunity is effectively constrained by several restrictions that are unaffected by the considered action. These continuing restrictions state that:

- #1. CQEs located in Area 3A and 3B communities may not purchase any halibut QS for Area 2C, and CQEs located in Area 2C may not purchase any halibut QS for Area 3B;
- #2. CQEs may not purchase Category D halibut QS for Area 2C (affects Area 2C CQEs);
- #3. Area 2C and 3B CQEs may not purchase Category D halibut QS for Area 3A, and Area 3A CQEs may only purchase up to 9.6% of the total pool of Category D halibut QS for Area 3A;
- #4. CQEs may not own more than 10 blocks (any size) of halibut QS in any single management area.

The presented RIR does not attempt to arrive at a single maximum number of newly available small block QS units under Option 1 because the aforementioned restrictions can interact with one another, and because some of these restrictions create a path-dependent set of choices that shape the maximum small block purchase opportunity. For example, the 14 Area 3A CQEs could purchase all, some, or none of their allowed 9.6% of the Area 3A Category D QS pool (Restriction #3) in the form of unblocked QS, thereby using up an undetermined number of the 140 collective blocks permitted to them in that area under Restriction #4. As another example, the 23 CQEs in Area 2C can collectively purchase up to 230 blocks of Category A, B and C halibut QS in Area 2C (Restrictions #2 and #4), but it is not possible to know *a priori* whether these will be newly available small blocks, or, if they are, whether they will be the 230 *largest* small blocks. Nevertheless, in order to provide a figure for consideration, this supplement makes a series of simultaneous assumptions that permit the analyst to present absolute maximum small block QS acquisition under specific conditions.

¹ See Table 2-1 (Page 7) and Table 2-3 (Page 10).

Table S-1 Maximum amount of small block halibut QS made available to CQEs under Alternative 2, Option 1

CQE Location	QS Location	QS Units	IFQ lbs. (2013)
2C	2C	6,097,446	304,112
	3A	8,855,162	528,351
3A	3A	6,092,988	363,543
3B	3A	3,565,183	212,720

Table S-1 reports the upper limit of new halibut QS that would become available to the CQEs in each management area if Option 1 is selected. The figures in Table S-1 are dependent upon the following assumptions:

- A1. The 23 CQEs in Area 2C collectively purchase the 230 largest available “small blocks” of Category A, B and C halibut QS for each of Areas 2C and 3A (507 such blocks are available for Area 2C, and 635 are available for Area 3A);
- A2. The 14 CQEs in Area 3A purchase as much Category D halibut QS as possible in Area 3A, and do so by collectively purchasing the 26 largest “small blocks” of Area 3A Category D QS;
- A3. The 14 CQEs in Area 3A utilize the remainder of the 140 blocks collectively allowed to them by purchasing the 114 largest available “small blocks” of Category A, B and C halibut QS for Area 3A;
- A4. The 8 CQEs in Area 3B collectively purchase the 80 largest available “small blocks” of Category A, B and C halibut QS for Area 3A.

First, note that the maximum amounts of newly available QS for the CQEs located in each area (Table S-1) could not all occur at once. The reported maximums each require the CQEs to purchase the largest “small blocks” in the market, up to their block limits (Restriction #4). If the CQEs located in Area 3B purchase the 80 largest Area 3A blocks, the CQEs located in Area 2C could not simultaneously purchase the 230 largest Area 3A blocks.

It is not unreasonable to assume that Area 3A CQEs will purchase as much Category D QS as possible (A2), considering that Category D QS is the least-costly class of halibut quota. However, there is no compelling reason to think that these CQEs would use their limited amount of Area 3A Category D QS (1,216,668 units) in the form of the 26 largest blocks. It could be that Area 3A CQEs buy many smaller “small blocks” of Area 3A Category D QS, thereby reducing the number of small blocks in Categories A, B and C that they could purchase. To illustrate, the Area 3A CQEs could purchase 102 Category D small blocks *of the median size for that class of QS* (11,912 units); in this scenario, these CQEs could collectively purchase only 38 additional blocks from the larger vessel categories while complying with Restriction #4). Buying 102 median size Category D small blocks and the 38 largest small blocks from Categories A, B and C would net the Area 3A CQEs only 2,960,344 QS units (176,632 IFQ lbs.), compared to the 6,092,988 QS units (363,543 IFQ lbs.) listed in Table S-1. Clearly there are many other combinations that fall in between these two examples.

Finally, note that the figures in Table S-1 include some amount of Category A halibut QS in each area. The analyst considers it unlikely that CQEs will have a high level of demand for Category A QS, as very

few CQE residents currently own Category A QS themselves, and there are no “freezer” class vessels currently registered with CFEC under a CQE community mailing address. Taking this into account, the figures in Table S-1 are likely an overestimate, albeit a very small one. There are only 9 small blocks of Category A QS for Area 2C, and 14 small blocks of Category A QS for Area 3A. Taking Category A out of the QS pool made available by Option 1 reduces the figures in Table S-1 by 0.6% or less.