

C2 Crab Processing Use Caps

Final Action



Sarah Marrinan, NPFMC

December 2023



History of Action

June 2021

October 2022

February 2023

October 2023

December 2023



- Council received 5 letters proposing changes to current regulations that prohibit crab processing facilities from using more than 60% of the Eastern Aleutian Islands golden king crab (EAG) IPQ
- Council also received a proposal to change the start date for both AI golden king crab fisheries
- In response, the Council tasked a discussion paper on both issues.

- The Council bifurcated these issues and scheduled this facility use cap piece independently.

- The AP/ Council reviewed a discussion paper for the EAG facility use cap
- Public testimony added a request to include exemptions to the PQS/ IPQ use caps for custom processed Bristol Bay red king crab (BBR) and south-designated Bering Sea snow crab (BSS).
- Council established a purpose and need statement, 2 action alternatives

- The AP/ Council reviewed an initial review analysis
- Identified both action alternatives as preliminary preferred alternatives

Possible final action



Acronyms and terms for reference

PQS = processing quota share, long-term processing privilege (in “units”)

IPQ = individual processing quota, annual issuance of processing opportunity (in pounds), share-match with A share IFQ

Use caps = limit to the amount of a privilege that can be held or used

Leasing PQS= (sale of IPQ) temporary contractual arrangement where the associated risk and responsibility of the IPQ is passed on to the IPQ holder

Custom processing IPQ = contractual arrangement where the IPQ holder contracts with an unaffiliated processor facility to process their crab, but the responsibility and liability remain with the IPQ holder

Affiliation = relationship between entities used for accounting (e.g., use caps); CR Program uses the 10% rule- if an entity has a 10% or greater interest, ownership is 100% attributed to that entity

RCR = Registered Crab Receiver, An RCR permit is required for any person who receives unprocessed CR crab from the person(s) who harvested the crab, including catcher processors

Regional delivery requirements = some IFQ has a requirement that it is landed in a certain region (North – N of 56°20' N lat; South – not the North region; or West - W of 174° W long)

ROFR = right of first refusal, a provision of the CR Program that provides a representative community entity – that represents a location of historical crab processing – the opportunity to acquire PQS (and other assets) by agreeing to the same terms of a pending transaction



Acronyms page 2, terms described throughout document;
*note these are not necessarily regulatory definitions



Catcher vessel owner shares

(percent based on historical activity)

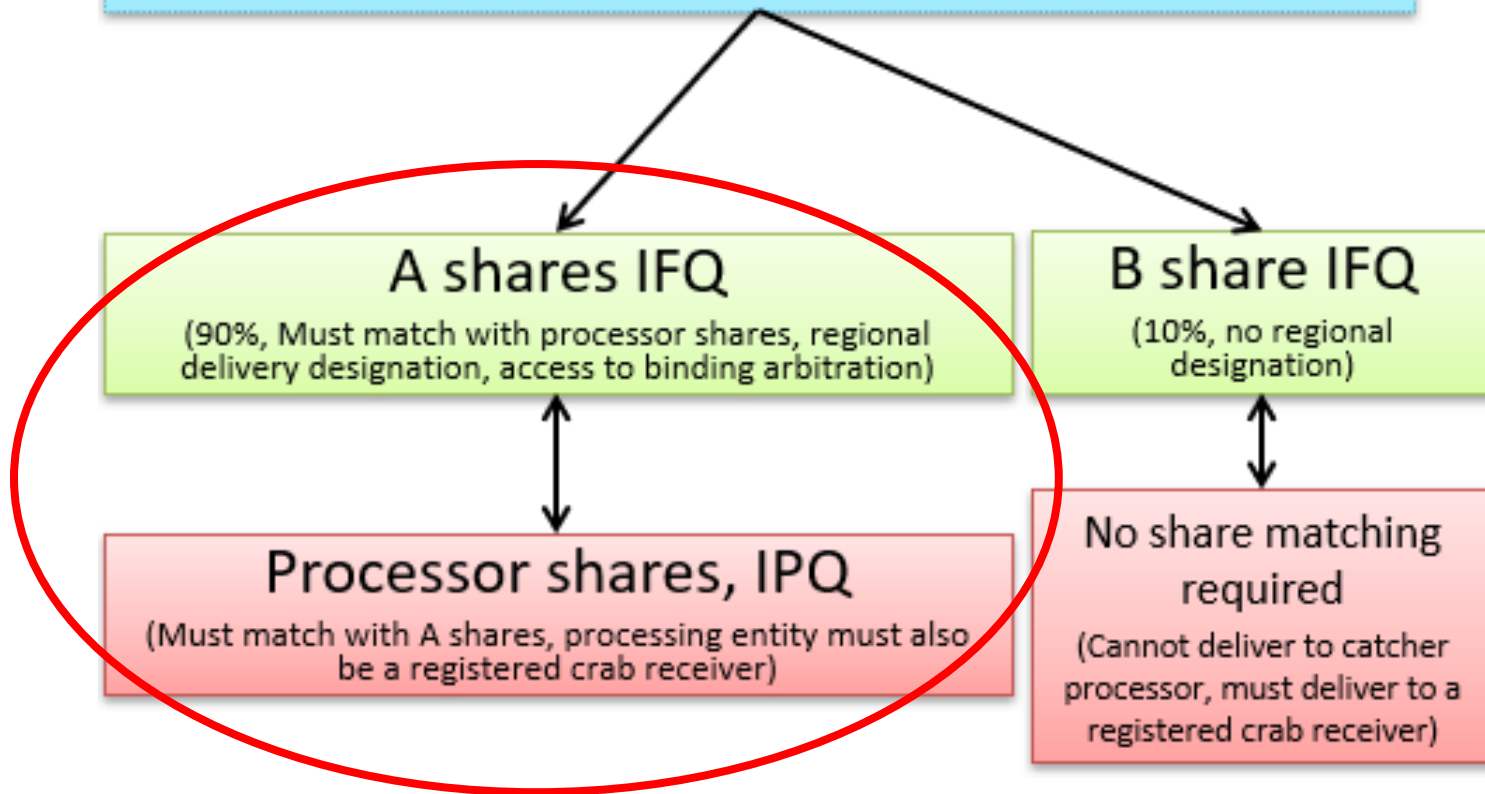


Figure 3-1, page 18



Purpose and need for action



- Significant percent of crab individual processing quota (IPQ) held by people who are not affiliated with a processing facility (i.e., requires custom processing)
- EAG and WAI have a unique cap that limits facilities to processing more than 60% of the IPQ issued for EAG or WAI
 - Action to remove cap could increase market opportunity for EAG
- PQS/ IPQ use caps include any custom processed IPQ for BBR, south-designated BSS and WAG IPQ processed east of 174° W longitude
 - Declines in BSS and BRR could lead to years with small fishery catch limits, which could create production inefficiencies with current caps
 - Action to exempt custom processing from these caps could increase efficiencies and increase the net benefits generated from these species
- Preserve ownership and entity use caps to limit consolidation



Alternatives- Alternative 2 and 3 identified as preliminary preferred alternatives

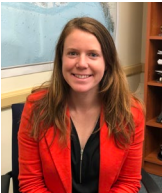
Alternative 1. No action.

Alternative 2. Remove the EAG and WAI processing facility use caps at §680.7(a)(9).

Alternative 3. Exempt custom processing of

- **BSS IPQ with a south-region designation,**
- **BBR IPQ, and**
- **WAG IPQ processed east of 174° W longitude**

**from the PQS/IPQ and processing facility use caps under the program.
Regionalization would still apply.**



Regulatory caps on crab processing

Limits to how much PQS a person can hold §680.42(b)(i)

- No more than 30% of the PQS initially issued in the fishery
- Includes affiliations – 10% rule
- Exceptions for PQS holders that received an initial allocation in excess of this amount based on historical processing “grandfathered in” above the use caps

Limits to how much IPQ a person can “use” §680.42(b)(ii) and §680.7(a)(7)

- No more than the amount of IPQ resulting from 30% of the PQS initially issued
- Except if they were “grandfathered in”

Prohibition on how much a shoreside or stationary floating processor can process (even if they don't own IPQ) §680.7(a)(8)

- No more than 30% of the IPQ issued for a crab fishery
- Except if they were “grandfathered in”



Regulatory caps on crab processing

ORIGINALLY, the 30% caps on the *use* of IPQ originally included summing the total amount of IPQ that is:

- (1) held by that person;
- (2) held by other persons who are affiliated with that person through common ownership or control; and
- (3) any IPQ crab that is **custom processed** at a facility an IPQ holder owns.

NOW, there are a number of exemptions to this calculation.



Regulatory caps on crab processing - Amendments

Amendments to exempt certain fisheries, parts of fisheries or situation from having the custom processed IPQ from counting towards the PQS/ IPQ use caps:

Amendment 27 (effective June 2009) – created a list of 6 crab fisheries (or parts of fisheries) to exempt, only applied within communities, extra Right of First Refusal exemption

Amendment 41 (effective June 2013) – regional delivery exemption triggers an exemption for custom processed IPQ

Amendment 47 (effective January 2017) - Added *C. bairdi* fisheries to the list

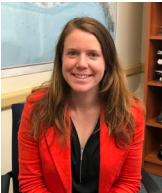
- This leaves BBR, BSS with a south region designation, and WAG crab processed east of 174° W. long as the only fisheries for which custom processed IPQ DOES count toward the PQS/ IPQ use caps



Description of affected crab fisheries

- EAG and WAG fisheries
- WAI fishery
- BSS fishery
- BRR fishery

- TAC & harvest
- # of vessels & landings
- Ex vessel price and gross value
- Spatial distribution of harvest
- PQS & IPQ holder information
- # of processing facilities and location



Crab processing communities - profiles

Six communities received deliveries of BBR, BSS, EAG, or WAG between 2015 – 2022:

- Adak
- Akutan
- Dutch Harbor/ Unalaska
- King Cove
- Kodiak, and
- St. Paul



This section used existing sources to provide a consolidated profile for each community.



Alt 1: No action

Represents status quo regulations

- Processing facilities east of 174° W longitude would continue to be prohibited from using more than 60% of the IPQ issued in the EAG and WAI crab fisheries
- Custom processed IPQ for south-region BSS, BRR, and WAG processed east of 174° W longitude would continue to count toward the PQS/ IPQ use caps (unless qualified through ROFR exemptions)
 - The 2023/24 season was an example of challenges with the PQS/ IPQ caps for BBR.

Consolidation/ loss of processors can still occur under status quo

- Although use caps can provide market space for another processing facility – it does not guarantee that a processing facility will be available
- These decisions may be external to the use caps



Effects of Alt 2: Remove EAG and WAI facility use caps

- Would allow additional custom processed IPQ to the facility near the cap
- Distributional impacts across processing facilities
- If the WAI fishery opens, this action could allow for more efficient deliveries and processing, especially if a TAC is small.



Effects of Alt 3: Exempting custom processed IPQ from PQS/ IPQ use caps



Source: A. Olson



Changes

- Would allow processing facility companies to process over the 30% use cap for BBR, south-region BSS, and WAG - with custom processed IPQ not counting towards the caps
- Would align the application of PQS/ IPQ use caps across crab fisheries

The same

- A person's direct and indirect PQS and IPQ holdings would still count towards the PQS/ IPQ use caps
- Regionalization would still apply



Effects of Alt 2 and Alt 3 – Processors and harvesters

Processors

- Increased net benefits and production efficiency at the processor sector level
- Distributional impacts to owners of processing facilities (some may have more IPQ to process, some less)
- Beneficial to unaffiliated IPQ holders by potentially providing more custom processing market opportunities (such as this live market) and more competition for facilities
 - Unless the number of independent active facilities decreases (not expected in the short-term)
- Continued opportunities to enter into the processing market by purchasing or leasing PQS, or accepting deliveries of B or C class IFQ or CDQ crab

Harvesters

- Beneficial to harvesters that share-match with unaffiliated IPQ holders by potentially providing more custom processing market opportunities (such as this live market) and more competition for facilities
 - Unless the number of independent active facilities decreases (not expected in the short-term)



Effects of Alt 2 and Alt 3 - Communities

EAG, BRR, BSS, & WAG processing communities: Dutch Harbor/Unalaska, King Cove, St. Paul, Kodiak, Akutan, & Adak

- Consolidation and movement of IPQ can already occur under status quo
- Impacts would only be realized to the extent that this action encourages the movement of shares to – or away from – recent processing communities
- Difficult to predict, but the marginal impacts from this action are not expected to be large



Management and enforcement considerations

- NOAA Office of Law Enforcement has consistently identified challenges with monitoring and enforcing PQS/ IPQ use caps.
 - Complex web of entity affiliations
 - Complex regulations with many nuanced exemptions
- Due to this complexity, they are generally monitored and enforced on an ad hoc basis, when issues are suspected.
- Alternative 2 and 3 should reduce the monitoring and enforcement burden.
 - If adopted together, use caps would be consistent across fisheries.
 - And monitoring and enforcement would essentially be at the holder level – PQS and IPQ.



Next Steps

- Identify a preferred alternative(s) for final action.

Questions?

Sarah Marrinan

sarah.marrinan@noaa.gov

Thank you to contributors

Listed in Section 5, page 64



Appendix 2 IPQ holder information

EAG - 2023/24		IPQ lbs	% of total	% of total
Processor-affiliated	ALYESKA SEAFOODS INC.	1	0%	76%
	ROYAL ALEUTIAN SEAFOODS INC.	1,261,569	45%	
	TRIDENT SEAFOODS CORPORATION	28,342	1%	
	WESTWARD SEAFOODS INC.	824,297	30%	
Unaffiliated*	57 DEGREES NORTH LLC	133,253	5%	24%
	GKC HOLDINGS LLC	183,390	7%	
	KEYPORT LLC	192,679	7%	
	OCEAN2TABLE ALASKA LLC	157,919	6%	
Total		2,781,450	100%	100%

BSS - 2021/22		IPQ lbs	% of total	% of total
Processor-affiliated	NORTH PACIFIC SEAFOODS INC	443	0%	69%
	PETER PAN SEAFOOD COMPANY LLC	629,711	16%	
	ROYAL ALEUTIAN SEAFOODS INC.	605,236	15%	
	TRIDENT SEAFOODS CORPORATION	1,013,337	25%	
	WESTWARD SEAFOODS INC.	522,437	13%	
Unaffiliated*	57 DEGREES NORTH LLC	691,568	17%	31%
	COASTAL VILLAGES CRAB LLC	169,282	4%	
	KEYPORT LLC	228,121	6%	
	NORQUEST SEAFOODS INC.	137,064	3%	
Total		3,997,199	100%	100%

WAG - 2023/24		IPQ lbs	% of total	% of total
Processor-affiliated	ROYAL ALEUTIAN SEAFOODS INC.	121,371	16%	47%
	TRIDENT SEAFOODS CORPORATION	7,883	1%	
	WESTWARD SEAFOODS INC.	229,083	30%	
Unaffiliated*	APICDA JOINT VENTURES INC.	229,470	30%	53%
	KEYPORT LLC	131,416	17%	
	OCEAN2TABLE ALASKA LLC	45,522	6%	
Total		764,745	100%	100%

BBR - 2023/24		IPQ lbs	% of total	% of total
Processor-affiliated	PETER PAN SEAFOOD COMPANY LLC	198,524	12%	76%
	ROYAL ALEUTIAN SEAFOODS INC.	363,901	23%	
	TRIDENT SEAFOODS CORPORATION	376,941	23%	
	WESTWARD SEAFOODS INC.	282,565	18%	
Unaffiliated*	57 DEGREES NORTH LLC	199,185	12%	24%
	APICDA JOINT VENTURES INC.	8,685	1%	
	COASTAL VILLAGES CRAB LLC	75,935	5%	
	KEYPORT LLC	107,415	7%	
Total		1,613,151	100%	100%