



Central Bering Sea Fishermen's Association

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May 31, 2024

Ms. Angel Drobnica, Chairwoman
Mr. David Witherell, Executive Director
Drs. Sherri Dressel and Franz Mueter, Co-Chairs Scientific and Statistical Committee
North Pacific Fishery Management Council
1007 West Third St, Suite 400
Anchorage, Alaska 99501

Transmitted electronically

Re: *Agenda Item D2 – BSAI Crab Rationalization Program Review*

Dear Chairwoman Drobnica and Council/SSC Members:

The Central Bering Sea Fishermen's Association (CBSFA) is the Community Development Quota (CDQ) group for Saint Paul Island in the Pribilofs. CBSFA is also the Eligible Crab Community Organization (ECCO) for Saint Paul and as such holds rights of first refusal (ROFR) contracts on behalf of the community for northern crab region processor quota share (PQS) owners.

Due in part to Saint Paul's proximity to the Bering Sea Aleutian Islands (BSAI) crab resources, CBSFA is allocated quota for Bristol Bay Red King Crab (BBRKC), Eastern Aleutians Golden King Crab and Bairdi, as well as 20% of the total Bering Sea snow crab set aside for the CDQ Program. CBSFA and the broader community of Saint Paul are dependent on the continuing harvest and processing of healthy crab stocks.

Notwithstanding the extreme challenges being experienced by CBSFA and other crab industry stakeholders, as a result of the closures and reductions affecting the snow crab and Bairdi crab fisheries the past few years, the Crab Rationalization Program (CP) has served many of its original objectives well. It has provided stability to harvester, processor, CDQ, and community participants that are dependent on these fisheries and has been responsive to applicable Magnuson-Stevens Act national standards and other relevant federal legal guidance.

In the case of Saint Paul, the CP has protected the community's historic participation in the BSAI crab fisheries which was made possible by substantial local, state, federal, private and CDQ investments in harbors and other fisheries-related infrastructure.

Background

In the two decades since the inception of the CP, CBSFA has made considerable investments in crab assets, both processing and harvesting quota, and harvests its crab quota on two partner crab vessels. CBSFA is currently the second largest crab PQS owner in the northern region and the third largest owner of crab PQS in the Bering Sea as a whole.

CBSFA manages its CDQ allocations and quota assets to promote social and economic development in Saint Paul, fulfilling the mandates of the CDQ program. Under subsequent amendments to the CP, which allowed for a custom processing exemption to use cap requirements in the northern region, CBSFA has been able to prioritize delivery and processing of its CDQ crab allocations, CPO, and non-regionally designated IPQ to the Trident Seafoods plant on Saint Paul, further benefitting the community and contributing to its tax revenues and economic base

Despite these positive developments, in recent years the dramatic drop in the snow crab resource and the closures and reductions of the BBRKC fishery have drastically reduced CDQ revenues, while the City of Saint Paul has seen dramatic cuts in its landing tax revenues since 2022, resulting in major budget cuts for critical services the City provides to the community. The drop in CBSFA's revenues may begin to impact its ability to fulfill CDQ program objectives for Saint Paul Island, including funding many of the community infrastructure, educational, research, and social programs CBSFA supports.

A big part of the disaster is the total cessation of crab processing at the Saint Paul Island plant. Depending on the duration of the snow crab and BBRKC downturns, communities such as Saint Paul that depend on processing operations are likely to shrink and could literally disappear. Hundreds of millions of dollars in losses to harvesters, processors and communities have already been devastating to the entire crab industry, and Alaska's economy.

The shutdown of crab processing in Saint Paul also shut down local processing for halibut, the other major fishery that takes place around Saint Paul – and that has had a cascading effect on the halibut fishery and on the community residents that participate in it.

Comments on the 17-Year Crab Program Review

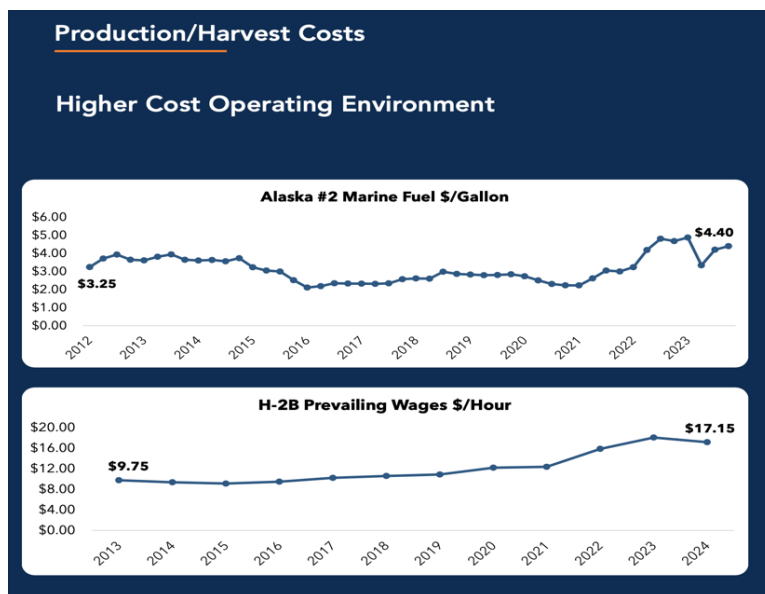
CBSFA appreciates the effort by NPFMC staff in drafting the Program Review and developing a comprehensive social and community section that is responsive to public testimony provided at earlier NPFMC meetings and reflects the "Three-Legged Stool" nature of the CP. CBSFA finds the recitation of relevant MSA national standards, laws, executive decrees, and guidance concerning underserved communities and Alaska Native populations that are involved in this review, extremely valuable. CBSFA believes this information will serve as a useful tool and guidance to the NPFMC and the public at large, should the Council consider any changes to the Program that affect underserved and Alaska Native communities.

Concerning the sections regarding the CP’s community protection provisions, CBSFA agrees with the Program Review conclusions that they have worked well and believes that they should be preserved going forward. The main community protection provisions in the CP are: i) regionalization of quota share designations; ii) an increase in the CDQ program allocations from 7.5% to 10% of the total allowable catch (TAC); and, iii) the requirement that ROFR contracts be in place between PQS holders and ECCOs. Other Program provisions such as ownership and use cap provisions (which can be waived under certain exceptions) to limit the consolidation of processing activity have also served to protect community interests.

Of these protections, regionalization has been the primary, and an effective, tool for protecting Saint Paul’s historic participation in the BSAI crab fisheries. On other fronts, CBSFA leveraged the increase in the CDQ program crab allocations from 7.5% to 10% to acquire additional crab PQS and crab related assets to the benefit of Saint Paul. Concerning ROFRs, CBSFA has maintained its ROFRs with PQS owners up to date. These ROFRs have served as an additional protection to the community should an event occur leading to the potential loss of PQS and related assets from Saint Paul.

Binding Arbitration

One component of the CP that has not worked well, that has negatively impacted CBSFA and by extension Saint Paul’s participation in the BSAI crab fisheries, and has the potential to determine whether processing will take place on Saint Paul or not, are the Binding Arbitration provisions. As currently structured, these provisions impact the viability of operating in the northern region. Not only is the Binding Arbitration’s price formula based on faulty historical data: it has not been, nor is it set up to be, responsive to changes in operational costs, including labor costs (some of which are a function of labor laws) that have made operating increasingly costly. According to the McKinley Research Group prevailing wages have experienced a 76% increase over the last decade, with most of that increase coming within the last 5 years.



Source: McKinley Research Group

The obligations imposed by the current arbitration system regulations require IPQ holders to make decisions that are risky under current TAC and market conditions. Moreover, the imposition of the current non-binding price formula has restricted IPQ holders from marketing and selling crab through more advantageous opportunities, because they face mandatory contract arbitration that contains a prescribed price formula that is based on outdated historical data.

Several CP fisheries are closed or at historically low TAC levels. Given the impacts of climate change and projections about the health of the crab stocks, in years to come it is likely that even under positive scenarios, crab processing sector participants will be processing low amounts of crab at higher and less predictable costs of operation. The Program Review notes that the number of processing sector participants in 2022 is at an all time low.

CBSFA and Saint Paul are very concerned about the viability of the crab processing sector in the community. To the extent that the current Binding Arbitration provisions are a decisive factor on this front, they also raise NS4, NS8 and other legal considerations regarding the sustained participation of Saint Paul, as an underserved Alaska Native community, in the BSAI fisheries. CBSFA believes the CP needs further review to determine if any regulatory changes can be made to adapt the Binding Arbitration provisions to current conditions and challenges, so it that can provide relief to the processing sector and the communities in which processing activities take place.

Conclusion

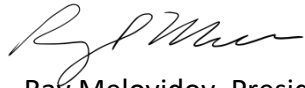
In conclusion, the CP has worked remarkably well since its inception. While the CP is large and complex, it has largely succeeded in being responsive to the conservation objectives of the MSA and the several relevant national standards such as: optimum yield (NS1); equity in allocations (NS4); efficiency in the utilization of fishery resources (NS5); responsiveness to variations and contingencies in the fishery resources (NS6); sustained participation of communities (NS8); reduction bycatch and mortality (NS9); and promoting the safety of human life at sea (NS10).

It was also responsive to our current understanding of Equity and Environmental Justice considerations towards underserved communities including Alaska Natives, and created tools that allowed for flexibility and resilience with regards to changes in weather and climate.

As noted in the Program Review, one of the reasons the CP has been successful is that throughout the life of the CP, the NPFMC has stepped in on multiple occasions to amend and improve diverse aspects of the CP when necessary to recalibrate and rebalance CP objectives and the MSA national standards. As stated above, one area that needs reformulation is Binding Arbitration. CBSFA believes that many of the Binding Arbitration system's requirements are no longer necessary and that a more equitable system, that is responsive to the participation of Saint Paul and other crab-dependent communities in the BSAI crab fisheries, can be developed with further review and analysis.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Ray Melovidov". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Ray Melovidov, President
Central Bering Sea Fishermen's Association