

DRAFT MINUTES

OBSERVER OVERSIGHT COMMITTEE

May 26-27, 1994

The Council's Observer Oversight Committee (OOC) met in Seattle on May 26-27 to review the first year budgets, reports, and fee percentage recommendations for the North Pacific Fisheries Research Plan (Plan). The following members, support staff, and public were in attendance (* designates committee member):

*Chris Blackburn (Chair)	AGDB
*Dave Benson	Arctic Alaska
*Brian Bigler	Alyeska Seafoods, Wards Cove
*Steve Davis	UAA Observer Training Center
*Michael Lake	Alaska Observers
*Mandy Merklein	Observer Program
*Nancy Munro	Saltwater, Inc.
*Jerry Nelson	Baranof/Courageous
*Arni Thomson	Alaska Crab Coalition
*Gary Westman	MTC (F/V Caravell F/V Rosella)
Christian Asay	Arctic Alaska
Mike Atterberry	Alaska Ocean Seafood
Ron Berg	NMFS - AK Region
Dave Colpo	AFSC Economist
Kim Dietrich	Alaskan Observers
Ken Griffin	ADF&G - Juneau
Cheri Hanneman	Frank Orth & Associates
Deidre Hartferd	Frank Orth & Associates
Chuck Jensen	East Point Seafood
Bill Karp	NMFS - AFSC
Paul MacGreger	AFTA
Bob Maier	NMFS Groundfish Observer Program
Chris Oliver	NPFMC
Brent Paine	United Catcher Boats
Kim Spitler	NMFS - AK Region
Clayton Terry	WASC - Finance Division
Joe Terry	NMFS - AFSC
Janet Wall	NMFS Groundfish Observer Program
Mike Ward	ADF&G - Dutch Harbor

By necessity, this meeting was held in late May in order to get a report to the Council from the OOC. In the future, meetings will be scheduled to take into account longline fisheries openings, or other fisheries openings, to ensure full participation opportunities for all OOC members.

The OOC received an overview of the Plan from NMFS staff, which concentrated on the fee assessment and collection aspects of the Plan. The OOC was surprised to learn that the first year start-up period for the Plan would require 'double payment' initially, with a rebate later in the year. NMFS explained why this was necessary to make the Plan work in Year 1. The OOC has further comments on this issue which are detailed later in this report. The OOC then received a report from NMFS which summarized the

projected observer costs (based on current levels of coverage), agency costs for NMFS and ADF&G, and the necessary fee percentage for Year 1 to accumulate start-up funds.

I. BOTTOM LINE

The initial estimates provided to the OOC by NMFS resulted in a fee percentage in Year 1 of 1.75%, considerably higher than estimates provided two years ago. This higher fee is a result of lower fish prices, increased agency costs, higher levels of observer coverage than two years ago, higher costs per coverage day, and the rebate program proposed for Year 1. After reviewing these initial estimates, and discussing the projected fish prices and direct observer costs, the OOC is recommending a fee percentage of 2% in Year 1. More specific discussions and recommendations are contained below by subject area.

II. BUDGET ISSUES

NMFS Budgets

The OOC reviewed the budget provided by NMFS, which includes the costs to the Observer Program, NMFS Regional office, and WASC (account maintenance), for a total projected budget of about \$2.5 million in FY 1995. The OOC noted that increases over previous budget projections were the result of mandatory salary increases and the filling of two positions which are currently vacant.

ADFG Budgets

The OOC reviewed the budget provided by ADF&G for administering the shellfish program, which totaled about \$ 800,000. This represents a substantial increase from budget projections previously reviewed by the OOC. It was noted that most of this increase (about \$200,000) is the result of adding the portside sampling program to the costs to be recovered under the Plan. This has been paid for directly by ADFG in the past. It was also noted that the ADFG budget did not include the costs of training shellfish observers, as this has been paid by shellfish observer contractors and was included under the direct costs of observer coverage. The OOC would like to see this estimate provided for explicitly in the budgets, as it is intended to be covered by the fee percentage.

Coordination between Shellfish and Groundfish Programs

Recognizing the differences between the two programs, but concerned with the overall efficiency of the program, the OOC would like to see more explicit consideration given by NMFS and ADFG to combining certain aspects of the observer programs for shellfish and groundfish. Examples of the types of activities which should be examined include: observer training and debriefing; dual observer certification; geographic considerations for office space, training, and debriefing; and data entry by observers on-board. The OOC was informed, and appreciates, that such coordination takes time and experience with the program to become reality. However, the OOC feels that the Plan builds two administrative infrastructures which have considerable overlap, and that we should begin the process of consolidation as early as possible.

An explicit recommendation of the OOC is for NMFS to provide budget estimates which reflect NMFS taking over and administering both the groundfish and shellfish programs under the Research Plan, and would include timeline estimates for such consolidation. This request by the OOC is not meant to favor one agency over another; rather, it is to provide a mechanism for evaluating cost disparities. The OOC

recognizes the significance of this request and that this report will likely not be provided until sometime next year.

III. DIRECT OBSERVER COSTS

The OOC reviewed the estimates provided by NMFS for the direct cost of observer coverage in Year 1 under the Plan. The observer contractors present for this meeting met in sub-committee to further evaluate these estimates and provided revised estimates which were adopted by the OOC. The revised estimates are incorporated in the 'Bottom Line' OOC recommendation. The OOC discussed factors which affect the direct costs of observer coverage, and which should be considered in estimating the total costs. These include: differential costs of placing observers in the BSAI vs GOA; differential costs between the shellfish and groundfish programs; the fact that travel costs remain a large variable in the cost estimates, and the ratios used in calculating the number of employment days resulting from a given amount of actual observer days. The direct observer costs affect the total cost of the program, and particularly, the amount of the projected rebates for Year 1 of the program.

IV. REVENUE ESTIMATES & FISH PRICES

Projected fish prices represent an integral part of the overall fee calculation exercise, and were examined by the OOC. Overall, the initial numbers presented to the OOC are likely an overestimate, and therefore will increase the overall fee percentage when corrected. Specific recommendations by the OOC regarding future fish price projections include:

- * A more formal definition of ex-vessel price. One item which generated considerable discussion by the OOC was the use of shoreside delivery prices as a proxy for fish prices to the offshore sector.
- * The OOC recommends looking at the use of differential prices by various sectors, at least for some species. The following specific recommendations were made: (1) for pollock and rock sole in the BSAI, different prices for shorebased, mothership, and catcher/processors, (2) differential prices for GOA pollock and BSAI pollock, (3) seasonal differences for pollock and rock sole, (4) differential prices for Pacific cod by gear type, and (5) differential prices for red king crab by area.
- * In setting standardized prices, some of the seasonal variations would be more accurately captured by using six month standards (as with the VIP program) instead of annual standards.
- * Meal plant fish should be treated as non-retained catch and considered exempt from assessment at this time.
- * The methodologies employed in making the fish price projections should be reviewed by the SSC.

V. START UP YEAR AND REBATE SYSTEM

As noted previously, the 'double payment with rebate' system proposed by NMFS to implement Year 1 of the Research Plan is a new and troubling development to the OOC. In addition to the financial burden it places on fishermen and processors, there are equity implications in the current proposal. For example, the current proposal calls for a standardized cost reimbursement per coverage day which is directly paid

for. This will likely result in some fishermen getting back less than they actually paid directly for observer coverage (the rebate will be either the standard or actual, whichever is less). These differentials could be quite substantial in some cases. From the observer contractor's perspective, this system puts them in an unenviable position of having to get paid for observer coverage by the same operator who is already paying the Research Plan fee. The likelihood of the contractor "getting stiffed" may be higher under this proposal.

Alternatives to Rebate System

It was pointed out by staff that the alternative of rebating actual expenses to each operator may be more equitable on the surface, but it provides the opportunity for operators and contractors to claim higher than actual costs. Staff also explained that each of the concerns raised in OOC discussions was considered, but not resolved, by staff when it developed the rebate system as proposed. Nevertheless, the OOC recommends to the Council that the following alternatives be examined for Year 1 implementation:

1. Processors would look at the actual costs and deduct those costs from the bills before paying them (the 'ultimate credit system').
2. Contractors would submit documentation about the amount of each rebate for each vessel and that amount, instead of the standard amount, would be rebated.
3. Use a single rebate amount of \$200 per observer coverage day.

Further, the OOC recognizes the need to maintain a core of strong, financially stable contractors, and that the current rebate proposal may not be in the best interests of the contractors.

VI. OTHER ISSUES

Shellfish Training

The OOC discussed the issue of shellfish observer training and the role of UAA under the Research Plan. ADF&G budgets did not contain estimates of shellfish observer training, reflecting the fact that ADF&G does not wish to undertake observer training directly. OOC observer training representative Steve Davis provided the OOC with a budget projection for the UAA, which included training of shellfish observers and some portion of the training of groundfish observers, noting that the NMFS budget includes costs of training all groundfish observers. The OOC felt that it was beyond its purview to include UAA as a specific line item in the budgets to be covered by the Research Plan fees; rather, that such information would be useful to the OOC and the interagency workgroup in accurately projecting the costs of training observers, regardless of who does the actual training. This information will also be very useful to the interagency workgroup as they develop future reports on overall coordination and efficiency of the program(s).

Insurance

Standardization of insurance requirements is still an issue around the observer program, and under the Research Plan. Questions such as "Who is the employer of the observer?" and "What coverage is required and who pays for it?" still remain. The OOC recommends formation of a Technical Workgroup to address this issue and report to the OOC and the Council. This Workgroup could contain OOC members, other industry experts (maritime insurance), and agency personnel.

Inclusion of Effects of Management Changes on Observer Costs

The OOC recommends that any future management proposals contain an analysis of how the proposed change affects observer coverage needs.

Special Fisheries

The OOC notes that some fisheries are "out of the ordinary" and should pay for their observer costs, or at least those requirements which are above and beyond normal. Examples were hair crab fisheries and CDQ fisheries.

Future Meetings of the OOC

The OOC is planning a meeting for either late August or September, to provide additional input before the Council finalizes the fee percentage for Year 1 (1995).

VII. SUMMARY

The OOC notes that the observer program appears to be maxed out, even with the full 2% fee assessment (though we note that some of the fee assessment for Year 1 reflects start-up costs which will be reduced in subsequent years). Additional observer coverage in the future looks fairly unlikely under the 2% fee cap, noting that the Magnuson Act language says that such fees 'not be used to offset amounts authorized under other provisions of law'. The OOC recommendation of the full 2% fee for Year 1 recognizes that, in the event this is more than enough, the industry will 'get it back' in the following year in the form of a reduced fee percentage. Also of note is the fact that the full 2% may not be necessary if the current rebate proposal is changed.

In looking at ways to get the most out of the 2% fee, the OOC discussed the fact that the fee cannot be assessed on landings from inside three miles (other than halibut). Finally, the OOC wishes to remind the Council that assessing the fee on discards is still an option for the future, and would help build funding for the program.