C2 Crab Processing Use Caps
Final Action

Sarah Marrinan, NPFMC
December 2023
June 2021

- 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.

October 2022

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

February 2023

- 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

October 2023

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

December 2023

- Possible final action
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 responsibly and liable 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
Catcher vessel owner shares
(percent based on historical activity)

A shares IFQ
(90%, Must match with processor shares, regional delivery designation, access to binding arbitration)

B share IFQ
(10%, no regional designation)

Processor shares, IPQ
(Must match with A shares, processing entity must also be a registered crab receiver)

No share matching required
(Cannot deliver to catcher processor, must deliver to a registered crab receiver)
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

Full Purpose and Need is in Section 1.2, page 14
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”
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.
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

Section 3.3 page 28-45
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

**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

Source: A. Olson

Section 3.5.3, page 55-57
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?

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sarah.marrinan@noaa.gov

Thank you to contributors

Listed in Section 5, page 64
## Appendix 2 IPQ holder information

### EAG - 2023/24

<table>
<thead>
<tr>
<th>Processor-affiliated</th>
<th>IPQ lbs</th>
<th>% of total</th>
<th>% of total</th>
</tr>
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<tbody>
<tr>
<td>ALYESKA SEAFOODS INC.</td>
<td>1</td>
<td>0%</td>
<td>76%</td>
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<tr>
<td>ROYAL ALEUTIAN SEAFOODS INC.</td>
<td>1,261,569</td>
<td>45%</td>
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<tr>
<td>TRIDENT SEAFOODS CORPORATION</td>
<td>28,342</td>
<td>1%</td>
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<tr>
<td>WESTWARD SEAFOODS INC.</td>
<td>824,297</td>
<td>30%</td>
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<tr>
<td><strong>Total</strong></td>
<td>2,781,450</td>
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### Unaffiliated*

<table>
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<tr>
<th>Processor-affiliated</th>
<th>IPQ lbs</th>
<th>% of total</th>
<th>% of total</th>
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<tbody>
<tr>
<td>57 DEGREES NORTH LLC</td>
<td>133,253</td>
<td>5%</td>
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<tr>
<td>GKC HOLDINGS LLC</td>
<td>183,390</td>
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<tr>
<td>KEYPORT LLC</td>
<td>192,679</td>
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<tr>
<td>OCEAN2TABLE ALASKA LLC</td>
<td>157,919</td>
<td>6%</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td>764,745</td>
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### BSS - 2021/22

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<th>Processor-affiliated</th>
<th>IPQ lbs</th>
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<tr>
<td>PETER PAN SEAFOOD COMPANY LLC</td>
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<td>16%</td>
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<tr>
<td>ROYAL ALEUTIAN SEAFOODS INC.</td>
<td>605,236</td>
<td>15%</td>
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<tr>
<td>TRIDENT SEAFOODS CORPORATION</td>
<td>1,013,337</td>
<td>25%</td>
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<tr>
<td>WESTWARD SEAFOODS INC.</td>
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<tr>
<td>COASTAL VILLAGES CRAB LLC</td>
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<tr>
<td>KEYPORT LLC</td>
<td>228,121</td>
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<tr>
<td>NORQUEST SEAFOODS INC.</td>
<td>137,064</td>
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<tr>
<td><strong>Total</strong></td>
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### WAG - 2023/24

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<td><strong>Total</strong></td>
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<tr>
<td>KEYPORT LLC</td>
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<td>OCEAN2TABLE ALASKA LLC</td>
<td>45,522</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>764,745</td>
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### BBR - 2023/24

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<tr>
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<td>57 DEGREES NORTH LLC</td>
<td>199,185</td>
<td>12%</td>
<td>24%</td>
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<tr>
<td>APICDA JOINT VENTURES INC.</td>
<td>8,685</td>
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<tr>
<td>COASTAL VILLAGES CRAB LLC</td>
<td>75,935</td>
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<tr>
<td>KEYPORT LLC</td>
<td>107,415</td>
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<tr>
<td><strong>Total</strong></td>
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