

Review of the Groundfish Development Authority

*An Element of the IVQ / GDA Program in the BC Groundfish
Trawl Fishery*

Final Report and Recommendations

By: Groundfish Special Industry Committee

February 2003

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INTRODUCTION

The Individual Vessel Quota / Groundfish Development Authority (IVQ/GDA) plan was implemented in the groundfish trawl fishery in April 1997. Since plan implementation, the Groundfish Trawl Special Industry Committee (GSIC) has periodically reviewed key elements of the plan. While the plan has remained substantially intact, selected recommendations by GSIC, accepted by the Minister, have altered quota reallocation rules and "fine tuned" the mechanics of the GDA.

With five fishing seasons having passed since IVQ/GDA plan implementation, it was deemed timely to conduct a review specific to the GDA portion of the program. This Final Report summarizes the findings of GSIC with respect to the GDA, and offers recommendations on how the GDA may be refined and improved.

METHODOLOGY

The methodology of this GDA review is described as follows:

Terms of Reference

The key points covered in the review are specified in a Terms of Reference document unanimously endorsed by GSIC (appended at TAB 2):

1. Review the GDA stated objectives for appropriateness and effectiveness in achieving the goals of the GDA.
2. Examine the GDA Formula to determine whether or not it is working effectively in allocating groundfish and hake GDQ relative to meeting the objectives of the program.
3. Review of the mechanics of the GDA process
4. Examine the reallocation rules for GDQ
5. Review of the current structure and membership of the GDA board
6. Clarify the CCQ process to determine its effectiveness in assuring fair treatment of crewmembers

Review Process

This review of the GDA has been conducted in the following stages:

- five GSIC meetings to discuss, debate, and analyze the elements of the program and formulate recommendations;
- Preparation of a Discussion Paper, with presentation to industry (GTAC);
- Incorporation of industry feedback into this Final Report document;

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- Sign-off by GSIC signatories, and conveyance of Final Report including recommendations to the Minister.

In a similar spirit to prior GSIC reviews of the IVQ/GDA program, the committee has agreed that:

- Recommendations to change the existing GDA program will only be forwarded to the Minister of Fisheries and Oceans where consensus of the GSIC signatories can be reached;
- The GSIC signatories, by consensus, may make recommendations to change the current GDA program without reaching consensus on all issues; and,
- Where there is no consensus of the GSIC signatories to change an aspect of the existing GDA program, subject to ministerial discretion, the existing program will remain in effect.

The GSIC signatories are: Alan Williams and Bob Morreau (Groundfish Trawl Licence Holders), Murray Chatwin and Dan McMillan (Groundfish Trawl Processors), John Radosevic (United Fishermen and Allied Workers Union), Rose Davison (Coastal Community Network), Allan Macdonald (DFO), and Dave Smith (MAFF). Also involved with this review process, in a non-signatory capacity, are Barry Ackerman (DFO), Bob Humphreys (GDA Executive Director), Brian Mose (Alternate Groundfish Trawl Licence Holder), Bruce Logan (Alternate UFAWU), and Stuart Nelson (facilitator).

Final Report Outline

This report has four primary components:

1. Identification of Concerns about the GDA
2. Background on the GDA
3. How the GDA Works
4. GDA Review & Recommendations

The report begins with a listing of comments and concerns voiced by industry participants regarding the GDA over the last few years. These concerns are addressed in subsequent sections.

1. CONCERNS ABOUT THE GDA

In launching the current review, GSIC is well aware of the issues surrounding the GDA, and has taken care to address them.

The GDA has been formally reviewed on at least three occasions:

- The 1999 IVQ/GDA Review (GSIC);
- The 2001 Coastal Communities Network Workshop on the GDA;

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- A 2002 GDA Discussion Paper (GDA Board).

In addition to structured reviews, the GDA is oft times the topic of spirited discussions between industry participants in a variety of settings. GSIC members have read and heard from their constituents a list of concerns about the GDA:

- The GDA should be scrapped, and quota allocated directly to vessels as IVQ
- The GDA stifles innovation in the industry
- Does the GDA system deal fairly with potential new entrants into the groundfish and/or hake-processing sector?
- Is the GDA making a difference? Or are things unfolding as they otherwise would?
- The GDA system for evaluating industry plans and allocating GDQ is not well understood by industry, and is not, therefore, a transparent system; the process must be well defined and communicated to industry
- Are the GDA's objectives effective in enabling the GDA to achieve its goals?
- Does the GDQ formula do what it was intended to do re: the distribution of quota to reflect GDA objectives?
- Has the CCQ been effective in ensuring fair crew treatment? Are fishermen better off, worse off, or unaffected?

Concerns about the GDA can be grouped into three categories:

1. ***Philosophical Opposition to the GDA*** – some parties fought against imposition of the GDA, disagreed with its implementation, and oppose its continued existence; these concerns are dealt with in the GDA Background section, which reviews the negotiation process by which the GDA came into existence;
2. ***Lack of Understanding About the GDA*** – even five years after plan implementation, there remains much confusion about what, specifically, the GDA does, and how its programs – the CCQ and GDQ – are administered; considerable attention in this document will be given to enhancing readers' understanding of the program;
3. ***Extent to Which the GDA Meets Its Objectives*** – the true work of this review, as called for in the Terms of Reference, is assessing the effectiveness and efficiency of the GDA in achieving its objectives, and indeed, the validity of the eight original GDA objectives.

Hi-lighting concerns about the GDA at the outset of this report does not imply that all prior work has dwelt on the negative aspects of the plan, or suggest that there are not many proponents of the GDA in the industry. Certainly, there are those in the industry who support the GDA, feel its objectives are worthy, and its contribution to the overall groundfish trawl picture is positive.

2. BACKGROUND ON THE GDA

Perhaps the best way to address philosophical opposition to the GDA, or those who question its continued existence, is to review the process by which the GDA was originally established.

- In 1995-1996 the groundfish trawl industry was in a chaotic state – too many boats, a sporadic landings pattern, volatile markets, suspect resource stewardship... an unsustainable situation from both resource and economic perspectives;
- Individuals tasked to develop a new fishery management plan generally recognized the benefits of IVQ's in allowing for improved area and species management, forcing individual accountability, and creating an environment for enhanced economic benefit from the resource;
- The notion of IVQ's sparked division in the industry – some parties were strongly in favor, based on expected improvements in resource conservation, operational efficiency, economic performance, and increases in asset values, while others were violently opposed, having concerns about undue rationalization, disruption of existing processing operations, and proliferation of "pitfalls" sometimes associated with IQ plans (quota leasing, concentration, erosion in crew earnings);
- The process of change formally included a range of interests: vessel owners, processors, communities, the UFAWU, and the federal and provincial fisheries ministries;
- As *discussions* on workable options became *negotiations*, it was clear that a new system which conferred 100% of quota to vessels was *not acceptable to some of the interests formally represented in the process*;
- The interests on GSIC who argued to implement a 100% IVQ system were not successful;
- A system whereby some portion of available quota would be owned / held / administered to non-vessel owners became *inevitable* – a range of options were discussed, including enterprise (processor) allocations, and community-owned quota;
- The compromise achieved was that non-vessel owning interests – specifically communities and unions representing both fishermen and shore-workers – would *influence* the allocation of 20% of available quota to vessels, through the GDA;
- Vessel owners did not "win" 100% of the quota in the IVQ/GDA plan... although they effectively end-up with 100% after the GDA renders its allocation advice;
- The establishment and continuation of the GDA is function of the outcome of negotiations and the multi-stakeholder make-up recognized in the groundfish industry.

GSIC respects the opinions of those who are not pleased with the IVQ / GDA compromise, and understands the frustration some vessel owners feel over not procuring a 100% IVQ plan. However, the reality is that interests other than vessel owners

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influence distribution of 20% of the quota in the groundfish trawl fishery. Even if the GDA as an allocation mechanism was found, through objective review, to have failed, there is no guarantee that vessel owners would be granted that portion of the quota now administered through the GDA.

3. HOW THE GDA WORKS

The complete workings of the Groundfish Development Authority are detailed annually in the GDA Operations Plan¹. Reflecting the complex nature of the GDA, the Operations Plan is a lengthy and detailed document. GSIC notes that many industry participants claiming that the objectives, structures, or practices of the GDA are obscure or poorly defined, simply have not performed the “due diligence” to carefully read the Plan.

Following is both a general summary of how the GDA works, designed for those with cursory knowledge of the program, and a specific analysis of how the GDQ allocation formula is structured and applied, intended for those who work intimately with the plan.

The GDA In General

Purpose - What is the GDA Trying to Do?

The Groundfish Development Authority is a non-profit society with the following stated purposes²:

1. To aid regional development as well as the attainment of market and employment objectives, sustainable fishing practices, and to ensure fair treatment of crew and safe vessel operation in the groundfish industry;
2. To advise the Minister of Fisheries and Oceans on how best to allocate that portion of the total allowable catch of trawl groundfish which is specified as Groundfish Development Quota and Code of Conduct Quota.

Stated another way, the GDA is a means for non-vessel owning interests to gain a voice and an influence in the development of an industry which is important to a range of stakeholders, including vessel owners, crew members, shore workers, and communities.

The GDA is designed to be a tool for motivating groundfish fishermen and processors to conduct their business in a manner consistent with the overall interests of the British Columbia groundfish trawl industry.

Programs - What Does the GDA Do?

With 80% of the groundfish trawl allowable catch allocated directly to trawl vessels, the GDA provides advice to the Minister of Fisheries on how the remaining 20% of the TAC should be allocated annually to vessels. “The 20 percent of the TAC influenced by the

¹ The most recent document is entitled, GROUND FISH DEVELOPMENT AUTHORITY 2002-03 OPERATIONS PLAN, March 1, 2002, and is appended to this report at TAB 3

² excerpted from the GDA Society Act Constitution

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GDA is divided into two parts: a 10 percent Code of Conduct Quota (CCQ) to protect the interests of crews under the new IVQ management plan, and a 10 percent Groundfish Development Quota (GDQ) to aid in regional development in coastal communities, attain market and employment objectives, and encourage sustainable fishing practices.”³

The means by which CCQ and GDQ are allocated to vessels are extremely different:

- CCQ is *automatically* allocated to vessels at the beginning of the fishing season, unless the vessel owner has been found by the GDA, through a formal complaints and investigation process, to be in contravention of the Code of Conduct, at which time some or all of that vessels’ CCQ will be withheld (and allocated amongst the rest of the fleet);
- GDQ is allocated to vessels only after a *proposal / review process* – participating fishing vessels and processors jointly develop and present a proposal (business plan) to the GDA; after proposals are rated, a calculation is performed, resulting in a recommended GDQ allocation for each vessel within the proposal; once accepted by the Minister, the actual allocation of GDQ is processed.

Effect – How Do CCQ and GDQ Quota Allocations Work?

The following illustrations show in simplest terms the effect that GDA allocations have at the vessel level. First, arbitrarily assuming a 50 million pound total quota groundfish allocation, the division of quota between IVQ, CCQ, and GDQ is shown:

Groundfish TAC – lbs.	50,000,000
<i>Division of TAC (lbs):</i>	
Allocated Directly to Vessels	80% 40,000,000
CCQ	10% 5,000,000
GDQ	10% 5,000,000

The next table shows the initial allocation to a vessel possessing 2% of IVQ, including both IVQ and CCQ:

Vessel with 2% of IVQ:	
<i>IVQ (lbs)</i>	800,000
<i>CCQ (lbs)</i>	100,000
Total Pounds on Licence (Beg. Season)	900,000

In practice under the IVQ / GDA plan, the CCQ has been treated as a vessel *entitlement*, though this entitlement may be fully or partially revoked, with cause, by the GDA. In five years, there has been *no instance* where any vessel received less than its regular entitlement of CCQ.

³ GDA 2002-03 Operations Plan, p.3

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The next table shows how GDQ allocations to this vessel may be calculated under differing scenarios:

GDQ for Vessel with 2% of IVQ:	Percent of Total GDQ	Lbs GDQ
If no proposal	0%	-
If vessel involved with a "below average" proposal	1.0%	50,000
If vessel involved with a "average" proposal	2.0%	100,000
If vessel involved with an "above average" proposal	3.0%	150,000

A vessel choosing not to participate in the GDQ program is free to do so, and will receive a "zero" allocation. Vessels participating in proposals deemed "below average" receive a lower percentage of GDQ than their IVQ holdings percentage. A vessel involved in an average proposal receives GDQ in equivalent proportion to its IVQ. And, correspondingly, above average proposals are dealt a higher-than-proportional share of GDQ⁴.

This illustration is completed by demonstrating the total quota holdings on the vessel, including IVQ, CCQ, and GDQ, under differing GDQ scenarios:

Total Available Quota on Vessel (lbs)	
If no GDQ proposal	900,000
If vessel involved with a "below average" proposal	950,000
If vessel involved with a "average" proposal	1,000,000
If vessel involved with an "above average" proposal	1,050,000

While differences in total quota are modest as the illustration is stepped-up from "no GDQ proposal", through to "above average" proposal, the effect of GDQ allocations is nonetheless significant. A vessel / plant proposal team obtaining 1.05 million pounds of quota from a 0.80 million pound IVQ will enjoy a decided financial advantage compared to an operator "going it alone", who's quota will total 0.90 million pounds. At current groundfish values, 150,000 pounds of fish brings substantial benefits at the crew, vessel-owner, shore-worker, and processor levels.

The working groundfish trawl industry, having had five seasons to work within the GDA system, is now well aware of the order of magnitude of outcomes of GDQ allocations, and the monetary impacts of these allocations on industry participants.

This paper now explores in depth *how* the GDA's allocation advice is rendered; how, specifically, are the merits of proposals evaluated, and how does this translate into tangible GDQ allocation decisions?

⁴ the terms "below average", "average", and "above average" are not part of the GDA parlance, but are merely chosen for illustrative purposes.

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GDA Specifics – The GDQ Allocation Process

Application & Review Process

The GDQ application and review process is summarized as follows:

- Vessel owners and processors agree to submit a joint application;
- An application is submitted to the GDA Executive Director, including:
 - Processor’s production performance summary for the prior year
 - Proposed production by product form and location for the upcoming year
 - Prior year vessel quota commitment & performance
 - Processor’s production verification record
 - Current year vessel quota commitments
 - A \$250 application fee
 - A business plan clearly identifying how well the company performed with respect to its prior year GDA proposal, the company’s ability to fulfill its production proposal in the current year, how this plan compares to previous years, and how the eight GDA objectives will be met
 - A company profile
- Applications are reviewed and summarized by the GDA Executive Director;
- Summaries are reviewed by the GDA Board of Directors;
- Applicants present their plans, in person, to the GDA Board; the Board may seek advice from a nine-member panel of industry advisors;
- Proposals are rated, according to overall quality, perceived legitimacy, and the level of “fit” with the objectives of the GDA.

Evaluation Criteria

Three factors influence GDQ allocations: the proposal rating (process summarized above), the three-year production history of the processor, and the level of IVQ commitments within the proposal.

Two of these criteria - production history and IVQ commitments – are objective⁵ while the ratings component, dependent on the proposal / evaluation process, is subjective.

The three evaluation “data points” for each proposal are fed into a formula, and a two-level GDQ allocation is calculated:

- The total GDQ allocated to the proposal;

⁵ Objective, although they may be based partly on representations of the proponents, rather than demonstrable fact...

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- The specific allocation of GDQ to vessels within the proposal.

Formula

Clearly, the formula is a critical determinant in the GDQ allocation process. Mathematically, the formula is long and complex – citing it in this report would add nothing to an understanding of how it works.

During the course of this review, GSIC has had the benefit of three presentations by the DFO systems analyst who designed and maintains the computerized GDQ process for the GDA. His presentations have enabled committee members to gain an understanding of the *effect* of the formula, with the upshot as follows:

- Production history accounts for 25% of the weight in the formula
- IVQ commitments are also weighted at 25%
- The GDA rating accounts for 50% of formula weighting

This finding was illuminating for GSIC, as some members suspected that the production history component was more influential in the GDQ calculation. This prompted the recognition that the *GDA rating* is by far the most important mathematical factor in the equation.

Does the Formula Do What It Was Intended to Do?

With GSIC gaining an improved understanding of how the GDQ formula works, it remained to assess whether or not the formula “behaves” as intended; that is, does the formula yield the desired results?

A simple model⁶ was developed by the DFO systems analyst to illustrate how GDQ allocations are derived. The model is used in this instance to *specifically assess how new entrants are allocated GDQ under the formula*. Key assumptions underlying the model are:

- There are four existing proposals (combination of vessels and processors) in the industry for three “base” years (first three rows in the table below); these proposals have attracted IVQ as shown below (note the pounds are arbitrary);
- A “new kid on the block” emerges in Year 1; this proponent is able to attract 5,000 pounds of IVQ, which is drawn proportionately from all other proposals

⁶ this model is simple compared to the multi-specie, multi-processor, multi-vessel environment existing in the groundfish trawl industry... but it is still rather complex.

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IVQ Commitments

	<i>Proposal A</i>	<i>Proposal B</i>	<i>Proposal C</i>	<i>Proposal D</i>	<i>Proposal E</i>	<i>Total</i>
Base Year - 2	10,000	20,000	15,000	40,000		85,000
Base Year - 1	10,000	20,000	15,000	40,000		85,000
Base Year	10,000	20,000	15,000	40,000		85,000
Year 1	9,412	18,824	14,118	37,647	5,000	85,000
Year 2	9,412	18,824	14,118	37,647	5,000	85,000
Year 3	9,412	18,824	14,118	37,647	5,000	85,000
Year 4	9,412	18,824	14,118	37,647	5,000	85,000
Year 5	9,412	18,824	14,118	37,647	5,000	85,000

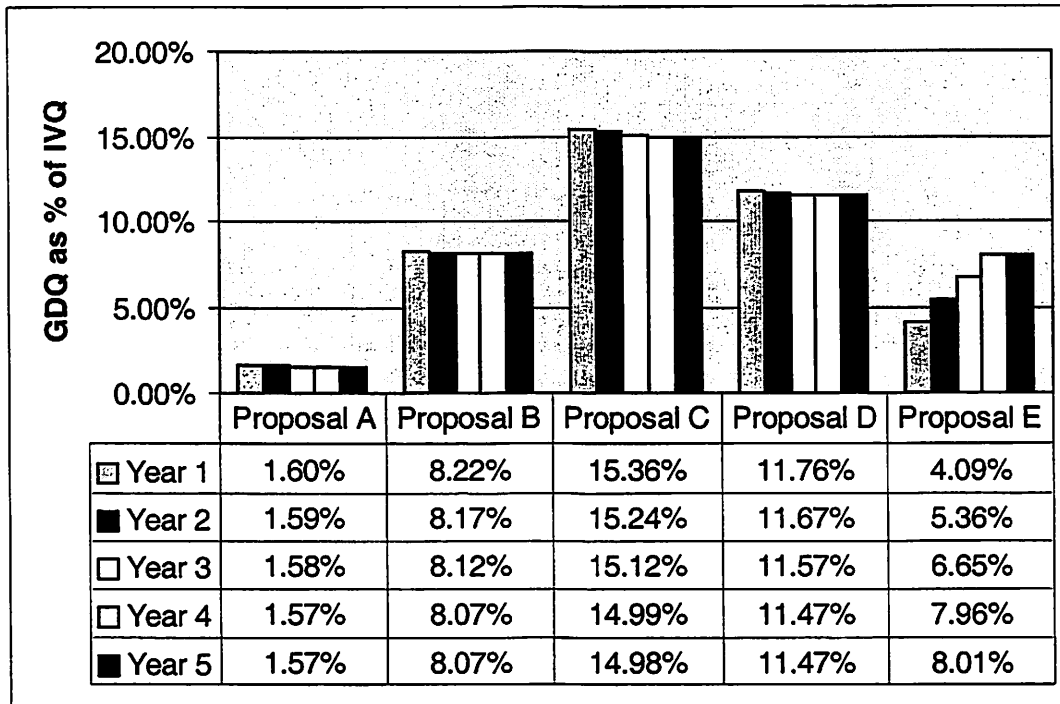
- The GDA ratings for each proposal in each year are shown in the following table; of the existing operators, one, Proposal A receives consistently dismal ratings (10%), Proposal B is quite poor (50%), Proposal C is outstanding (90%), and Proposal D is “mediocre” (70%);
- The new entrant, Proposal E, receives a GDA rating of 50% in each of the five years shown.

GDA Ratings

	<i>Proposal A</i>	<i>Proposal B</i>	<i>Proposal C</i>	<i>Proposal D</i>	<i>Proposal E</i>
Year 1	10%	50%	90%	70%	50%
Year 2	10%	50%	90%	70%	50%
Year 3	10%	50%	90%	70%	50%
Year 4	10%	50%	90%	70%	50%
Year 5	10%	50%	90%	70%	50%

- Note that, in this model:
 - Proposal E will start with no production history
 - The other proposals will have the benefit of their sizeable 3 base-year production history
 - The “quality” of the new proposal, as reflected in the GDA rating, is superior to Proposal A, equivalent to Proposal B, and inferior to Proposals C and D
- The GDQ allocation outcomes are summarized in the graph below:

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This graph shows the percentage of GDQ awarded to each proposal, relative to the IVQ brought to the proposal. Key observations:

- Proposal E, the new entrant, instantly out-performs proposal A (the proposal with the 10% rating);
- By the fourth year, Proposal E has virtually reached parity with Proposal B (the proposal with an identical 50% rating);
- Proposals C and D, with superior GDA ratings, maintain their “edge” over the competition, suffering only minuscule erosion because of the new entrant.

Two additional scenarios are offered, with the only variable adjusted being the GDA rating for Proposal E over time.

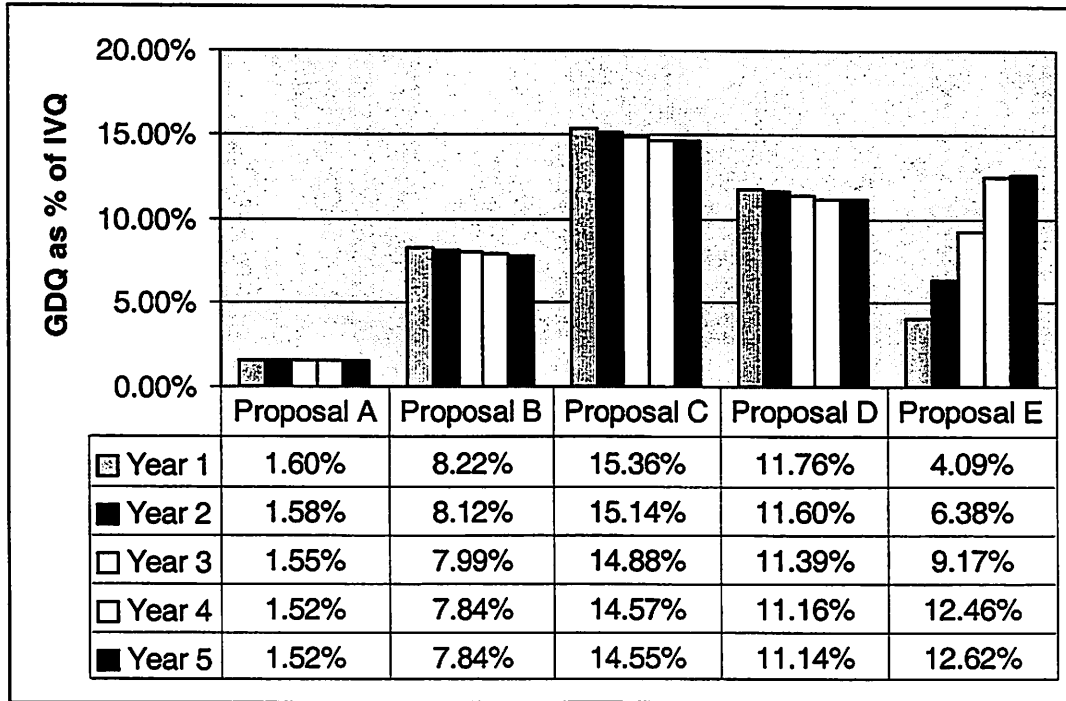
In the following scenario, Proposal E starts out with a 50% rating, gradually improving by year 4 to 80%. The premise here is that this applicant is a “good” operator, and that the GDA recognizes this fact over time.

GDA Ratings

	<i>Proposal A</i>	<i>Proposal B</i>	<i>Proposal C</i>	<i>Proposal D</i>	<i>Proposal E</i>
Year 1	10%	50%	90%	70%	50%
Year 2	10%	50%	90%	70%	60%
Year 3	10%	50%	90%	70%	70%
Year 4	10%	50%	90%	70%	80%
Year 5	10%	50%	90%	70%	80%

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Results are shown below.



Key observations:

- With improving GDA ratings, the amount of GDQ allocated to Proposal E escalates much more rapidly than in the first scenario;
- By year 4, Proposal E receives a greater than proportional share of GDQ (greater than 10%), reflecting the fact that he is a “good operator” according to his GDA rating

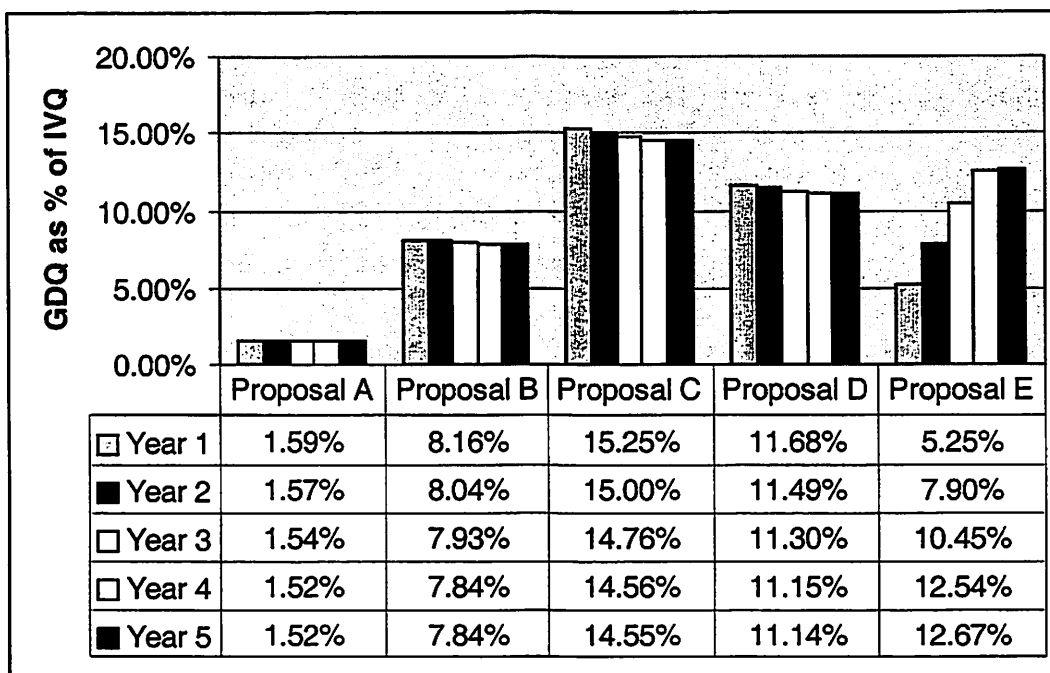
A final scenario demonstrates the effect if Proposal E, a “good operator”, is rewarded with higher GDA ratings on a faster schedule:

GDA Ratings

	<i>Proposal A</i>	<i>Proposal B</i>	<i>Proposal C</i>	<i>Proposal D</i>	<i>Proposal E</i>
Year 1	10%	50%	90%	70%	65%
Year 2	10%	50%	90%	70%	75%
Year 3	10%	50%	90%	70%	80%
Year 4	10%	50%	90%	70%	80%
Year 5	10%	50%	90%	70%	80%

In this instance, the GDQ allocation to Proposal E rises in larger “steps”; by year three, this proposal has exceeded the 10% GDQ average, and by year 4 he receives the 2nd highest allotment of GDQ in the industry, commensurate with his status as the “2nd best performer” (according to GDQ rating).

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The GDQ calculation model allowed GSIC to ask a variety of “what ifs”, by varying key factors: production history, IVQ commitments, GDA ratings, TACs, and the relative size of the Proposals.

After testing a range of scenarios, GSIC determined that:

- The formula works as it was designed to in distributing GDQ amongst industry participants, considering their production history, IVQ commitments, and GDA rating;
- New entrants most definitely face a time lag before they garner the share of GDQ indicated by their GDA rating, however, the size and duration of the lag seems reasonable, and within the bounds of what was originally intended;
- Concerns about the formula were lessened after going through the modeling exercise;
- the modeling exercise emphasized the importance of the GDA rating in the GDQ calculation.

4. REVIEW AND RECOMMENDATIONS

Review Subject Matter

In order to comprehensively deal with relevant GDA subject matter, GSIC covered the following items during its five working sessions:

- Re-visit past work on the GDA – issues, discussion, findings, concerns
- Hi-light and consider each recommendation of the recent GDA Discussion Paper (prepared by the GDA Board in 2002)

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- Analysis of each of the eight GDA Objectives (market stabilization, maintain existing processing capacity, employment stabilization, economic development in coastal communities, economic benefits, increasing the value of groundfish production, industry training opportunities, and sustainable fishing practices), including the intent of the objective, the validity of the objective, and the evaluation criteria utilized by the GDA to measure each proposals' "fit" with the objective
- Re-cast the objectives, intents, and evaluation criteria to improve clarity and objectivity
- Review the structure of the GDA Board and Non-Voting Advisory Body
- Review the mechanics of the GDA – timelines, and proposal process
- Re-allocation rules for GDQ (and carry-over)
- The three elements of GDA ratings (production history, IVQ commitments, and the GDA rating) – including three "tutorials" on the workings and effect of the formula
- The CCQ
- The overall "effect" of the GDA – "is the juice worth the squeeze"?

A summary of key issues, advice, and recommendations flowing from the above-described work plan are offered subsequently.

Feedback From GTAC

Upon presentation of the GDA Discussion Paper to GTAC (presentation appended at TAB 4), GSIC received some feedback that was considered prior to completion of this Final Report. The issue singled out for debate at GTAC was production history. Specifically, given five years of experience under the IVQ / GDA Plan, is there an ongoing need to "smooth" transitions in the industry? For example, if a vessel moves from one processor to another, should the processor losing production continue to benefit from past production history?

GSIC considered this feedback as follows:

Re: Production History

GSIC very carefully dealt with the issue of production history as a determinant of GDQ during the review process. Taking into account all views on the issue, GSIC found that:

- The weighting of production history in the formula, at 25%, makes it a relatively minor factor in GDQ determination;
- as a factor which serves to "smooth" transitions in the industry, production history is entirely compatible with some explicit objectives of the GDA;
- to the extent that production history is viewed by some to have an "unfair" impact on participants as production shifts amongst processors in the industry, analysis showed that the impact is extremely minor in scope;

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- given the interests represented in GSIC, re-opening the GDQ allocation formula could have far-reaching implications, potentially triggering fresh negotiations on the purpose and workings of the GDA;
- production history, as currently weighted in the GDQ formula, represents an acceptable compromise for the industry, from GSIC's perspective.

Review Findings

This section comprises the *output* of the Review: GSIC's advice, specific recommendations, and overall evaluation with respect to the GDA.

Advice

On two issues, GSIC gauged that advice to the GDA Board was in order, though technically, no change to existing GDA structures was required. This advice recognizes that the GDA Board interpretation and application of existing rules and procedures has considerable bearing on how GDQ is allocated amongst industry participants.

Issue: GDA Board Discretion to Rate "New" Proposals

Examination of the GDQ formula showed that the dominant determinant in how quickly, and in what quantity, new entrants receive GDQ, is the proposal rating as issued by the GDA Board. In past practice, the Board has significantly "downgraded" proposals from new entrants, placing emphasis on demonstrated performance over time, vs. "promises". This practice effectively *elevates* the importance of production history.

Advice

GSIC confirmed that the GDA Board is in no way compelled, as a matter of policy or practice, to assign low ratings for a subscribed time period to "new" proposals. While GSIC is not suggesting that unproven applicants be accorded the same status as proven performers, the Board should recognize that the plans of *bona fide* new proponents (for example, companies successful in other fisheries) may possess considerable merit. Proposals should be rated objectively, based upon the best information available. Higher up-front proposal ratings substantially shorten the GDQ "entry-curve" for new entrants.

Issue: GDA Application Deadline for Hake Operations

There is concern that a May 31 GDA deadline may unfairly influence the timing and nature of delivery arrangements between hake fishermen and processors.

It was not the intention that the GDA deadline would place either fishermen and/or processors at any advantage / disadvantage.

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Advice:

GSIC believes that the GDA process should be neutral to the negotiation process between hake fishermen and processors.

The GDA Board should recognize that, in the annual hake fishery:

- The GDA deadline may occur before fish price negotiations between fishermen and processors are concluded;
- Processors may have an advantage, in that vessels must commit to a proposal before price arrangements are determined;
- Fishermen may have an advantage, in that processors may be caused to make upfront commitments prior to having complete catch and market information;
- Because hake fishermen and processors may be compelled to make business arrangements prematurely, it may follow that production arrangements may change in-season, as resource, market, and competitive events unfold.

Given the above, GSIC advises that the GDA Board carefully consider the dynamics of each hake proposal prior to deeming either processors or vessels to be non-compliant with their pre-season commitments.

Recommendations

On five issues, GSIC formulated recommendations, offered below for consideration by the Minister.

1. Issue: Review of GDA Objectives and Evaluation Criteria

Analysis of the GDA formula indicates that the GDA rating is the strongest determinant in GDQ allocation; as proposals are responsive to the objectives and evaluation criteria contained in the GDA Operations plan, it is crucial that objectives and evaluation criteria are succinct, clear, and valid.

Recommendation 1:

GSIC recommends that the eight GDA objectives be reduced to seven, and that selected specific wording changes be effected to improve the clarity of objective intents, and allow for improved proposal evaluation. Specific revised wording is appended at TAB 5. It was noted that some criteria encouraged one word (yes or no) answers; these were altered to require more informative responses.

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2. Issue: Production History Based on Area and Species Specific History (vs. total poundage)

Production history in the GDQ formula is calculated based on total pounds of quota groundfish, gulf hake, or coastwide hake processed. Vessels specializing in low-volume, high-value activities (e.g. "idiots") are penalized under the formula in terms of the percentage of GDQ received in relation to IVQ held. Conversely, vessels with more generalized holdings may benefit by getting a disproportionately high percentage of GDQ for certain species-area quotas. GSIC considers this to be an *un-intended distortion* in the GDQ formula.

Recommendation 2:

GSIC recommends that production history be hereafter calculated based on species / area specific history, vs. total pounds of quota groundfish. This change requires a higher level of detail at the proposal stage (summary of planned deliveries by SAG vs. current species groupings).

So that the recommendation can take immediate effect, all proponents will need to upgrade their three-year production history records to include landings by SAG.

If accurate production history records cannot be expediently provided, then the GDA will devise a formula for reasonably allocating aggregate 3-year production history to the SAG level.

The GDA will continue to evaluate committed vs. actual production on an aggregate (not SAG) basis.

The intention of this recommendation is to ensure a fairer distribution of GDQ, not to create another level of "red tape" for the industry.

3. Issue: Structure of GDA Board / Non-Voting Participants

According to the GDA's constitution, the number of non-voting members of the Society cannot exceed the number of voting members. Currently, there are seven voting members and nine non-voting members. This technical breach should be remedied.

Recommendation 3:

The individuals comprising the advisory board providing advice to the GDA with respect to the evaluation of proposals need not be formal "members" of the society. GSIC recommends that the advisory body be considered a "standing committee". The current makeup of the advisory committee (3 processors, 3 fishermen, 1 First Nations rep., 1 DFO rep., and 1 MAFF rep.) should continue. The advisory committee members will be selected by the GDA Board.

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4. Issue: Timing of GDQ Being Placed on Licences

GDA proposals are submitted by May 31st each year. The GDA evaluation process and *initial* recommendations are normally completed by June 30 of each year and forwarded to the Minister. Despite this rapid turnaround by the GDA, a 2-3 month delay in the actual allocation of GDQ is common. Delays have been caused by the GDA not receiving timely responses from those vessel owners / processors asked by the GDA for additional information / explanation regarding the variance between deliveries and commitments in the previous year's joint proposal.

Recommendation 4:

In cases where Ministerial decisions are held up because the prior delivery performance of a minority of vessels is being investigated (as was the case in 2002/2003), GSIC recommends that:

- GDQ be allocated to all other vessels, on the basis that vessels under investigation would receive their allotment of GDQ as indicated by the normal GDA process;
- If vessel(s) under investigation have GDQ withheld, then the total amount withheld would be re-allocated amongst the rest of the fleet on a pro rata basis at a later date;
- A firm date would be set for vessels under investigation to respond to delivery concerns; vessels missing the deadline would automatically forfeit GDQ.

5. Issue: Potential Re-Allocation (Transferability) of GDQ and/or Carry Over

GDQ is non-transferable⁷, meaning that once placed upon a licence it is either caught in the current year by the vessel so-licensed, or it is foregone. GDQ is deemed to be the "second fish caught", after IVQ carry-over. Because carry-overs may be substantial (up to 37.5% of IVQ), and GDQ is subordinate to carry-over, there are times when GDQ is left in the water. There are also instances where carry-over remains un-utilized.

When all species area groupings are combined, the annual amount of forgone carry-over plus GDQ is significant in terms of poundage and value. GSIC recognizes that allowing transferability of GDQ and/or carry over could capture some portion of this foregone volume and value.

Recommendation 5:

- GDQ remain non-transferable, but be deemed the *first fish caught* (not second, as is the current practice);
- Carry-over be made transferable on a limited basis, and deemed the *2nd fish caught*;

⁷ The term "transferable", with respect to quota, is used in this recommendation because this is the term commonly used in the industry; technically, the term "re-allocation" is that used to describe movements of quota amongst T licensed vessels.

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- Allowable carry over (calculated as previously) is transferable in pounds, which must be caught in the following fishing season, or else be extinguished;
- Carry over which is re-allocated will effectively become an additional “class” of quota transfer; i.e. tracked separately from IVQ;
- Current holdings / species cap rules do not apply to carry-over;
- Current relinquishment rules remain in effect.

Effect / Rationale of Recommendation

- GDQ transferability would comprise both a major *philosophical* change, and also a substantive change in *GDA planning / commitment process*; on these bases, GSIC was unwilling to change this policy;
- Carry over is the larger issue with respect to groundfish quota utilization;
- Under this recommendation, utilization will improve... hereafter, there will be a 10% “rigidity” vs. the theoretical 47.5% rigidity currently applying to groundfish landings;
- The current rules with respect to GDA delivery commitments vs. deliveries remain in effect;
- Because carry over is extinguishable, its “marketability” will be reduced; therefore GSIC is not concerned at this time that carry-over quota will be unreasonably amassed on too few vessels;
- GSIC believes that quota transfers under new carry over transferability rules will keep the fish within the working fleet;
- Transfers of carry over must be within the spirit and intent of the CCQ (fair treatment to crews).

Overall Evaluation

Issue: The GDA – Is the Juice Worth the Squeeze?

GSIC examined the elements of the GDA, including its purpose, objectives, structures, programs, evaluation system, and allocation advice, in considerable detail. After dissecting the elements of the program, it remained to step back and take a “big picture” look at the GDA... is it fulfilling its purpose? Is it having an influence on the industry? Is the “juice worth the squeeze”?

Summary of Evaluation:

GSIC acknowledges that areas of the GDA remain subjective, but finds that:

- Overall, the GDA *does* influence how the groundfish trawl industry conducts its business;

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- The GDA is contributing to achievement of a range of industry and community objectives;
- The advice and recommendations arising from this review process will meaningfully contribute to improving the performance of the GDA in fulfilling its mandate.

SIGNATURES

GSIC, having conducted this Review of the GDA in a thorough and comprehensive manner, unanimously endorses this Final Report as reflective of the subject matter and findings of the Review, and forwards the preceding five Recommendations for the consideration of the Minister:

Robert Morreau

Alan Williams

Dan McMillan

Murray Chatwin

Rose Davison

John Radosevic

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Allan MacDonald

Dave Smith