
BSAI PACIFIC COD TRAWL CV COOPERATIVE PROGRAM

FINAL ACTION

SSC PRESENTATION



SUMMARY OF JUNE ACTION

- After consideration of all the recommendations, the Council released the analysis for final action and modified some of the elements and options.
- Council also selected a PPA which is summarized in Table ES-2 starting on page 11 and Table 2-1 starting on page 48.
 - Council did not select a PPA for:
 1. Elements 5.2 and 5.3 - did not select a processing limit for CPs acting as motherships
 2. Element 5.4 – did not select a percent of harvest shares to processors
- Summary of major changes to the analysis from June 2021 are provided in Section 2.3.4.1 starting on page 35. These changes reflect modifications to the element and options and requests for additional information to be included in the analysis.



SUMMARY OF SSC MINUTES

- The SSC *requested that it* review the analysis after a preferred alternative or set of alternatives is identified.
 - Multiple elements have significant interactions with one-another, and with the current structure of the fishery (existing cooperatives in some vessels' primary fisheries).
 - Effects will likely be different for AFA and non-AFA vessels, so analysis should identify responses for each.



SSC COMMENTS ADDRESSED

- Analysis and discussion of processor allocations under Element 5.4 was expanded.
 - Literature review
 - Stranded capital and compensation
 - Market power
 - AFA interactions
 - Holding of asset value
 - Processor allocation impact on CVs movement between cooperatives



SSC COMMENTS ADDRESSED

■ Literature review

- The work of Matulich et al. was retained in the analysis with limited revisions.
- Additional information was included regarding processor allocations including but not limited to the following:
 - Fell, H., and A. Haynie. 2011. Found that post-IFQ implementation fishers do improve their bargaining power and accrue more of the rents generated by the fishery. However, unlike previous studies, they found that fishers and processors appear to be in a near-symmetric bargaining situation post-IFQ.
 - Wilen, James E. 2008. Found that in the West Coast whiting fishery, processing capital is malleable and not likely to be devalued as a result of rationalization.



SSC COMMENTS ADDRESSED

- Guldin and Anderson (2021) developed the first quantitative study of harvest share allocations to processors using data from the whiting IFQ fishery.
 - The authors determined that processors used processor-owned quota in informal ex-vessel market negotiations.
 - Processors were able to offer quota to match a portion of deliveries and attract landings to their facility while charging catcher vessel operators a contracting premium on quota pounds transferred during some seasons when the whiting TAC was close to binding.
 - Processors utilized the quota during seasons when the TAC was not binding but charging price premiums was not evident in the data.
 - The paper concluded that additional research is required on the allocation of harvest shares to processors policy, particularly regarding welfare outcomes of harvesters and processors and overall efficiency.



SSC COMMENTS ADDRESSED

■ Stranded capital and compensation

- Concept was brought to the Council by Dr. Scott Matulich when it was developing the AFA and Crab Rationalization.
 - Processors operate in remote areas where millions of dollars were invested in plants that are designed to process specific species and the plants have no other or very limited value. Loss of access to these fish would result in the processor's investment being lost. Stakeholders have noted that there are substantial differences between the geographic location and concentration of processors in the whiting and BSAI Pacific cod fisheries and that the alternative uses of those properties are not directly comparable.
- Dr. Wilen and Dr. Fell reviewed the issues raised by Dr. Matulich and came to somewhat different conclusions
 - Dr. Wilen concluded that the IFQ whiting fishery was unlikely to generate significant processing stranded capital. Most capital involved in whiting processing was stated to be malleable and not likely to be devalued as a result of rationalization. He also stated that if policy makers judge it desirable to consider compensation for processors, a legitimate process would tie compensation to anticipated or demonstrated capital losses. He concluded that current policies proposed on the U.S. West Coast to transfer harvester quota are arbitrary and unsupported by empirical estimates of the magnitude of the problem.
 - Dr. Fell et al. found in their study that the allocation of harvest shares to processors are not necessary to prevent harvesters from having too much market power.



SSC COMMENTS ADDRESSED

■ Market power

- Changes in market power are expected to be realized from the proposed action, including allocations of harvest shares to processors, relative to the status quo, but quantitative measures of the change were not calculated.
- Dr. Lee G. Anderson (2008) stated that *“the difficulty of defining market power and of measuring the gains or loses of various actions such that they can be approved as part of a management plan should not be understated”*.
- Appendix A and Appendix E (Analysis of the Impact of the Initial Quota Share Allocation on Long-Term Quota Share Distribution) from the Pacific Council EIS was included as reference.
- Market power in an industry is influenced by new entrants, the number of harvesters, the number of processors, availability of substitutes, and competitive rivalry. These were described in terms of no limits on processor entry, limited harvester entry, and competition that has existed between harvesters and processors throughout the document.
- While it is widely acknowledged that the allocation structure will result in shifts in market power, we cannot address the issues of whether the market forces before the LAPP was implemented were optimal or the amount of quota that should be issued to processors under the PCTC to achieve the Council’s desired outcome.



SSC COMMENTS ADDRESSED

■ AFA interactions

- A section was added that described the relation between AFA CVs and the Pacific cod fishery. p. 253
- About 85% of the BS Pacific cod harvested by these vessels was delivered to their AFA cooperative processor.
- This indicates a relatively strong linkage between members of AFA cooperatives in other fisheries.
- Note that the AFA allows CVs to deliver 10% of their pollock to another cooperative to increase CVs bargaining power. The percentage of Pacific cod delivered to other processors has been slightly greater than the amount of pollock that may be delivered to another processor under the AFA.
- Non-AFA vessel operators may be in a weaker bargaining position relative to AFA vessel operators, since they do not hold pollock quota as part of their portfolio to leverage in negotiations.



SSC COMMENTS ADDRESSED

- Holding of asset value
 - LLP license owners will still realize an increase in asset value relative to the status quo.
 - Any allocation of harvest shares to processors will reduce the underlying asset value held by the LLP license owners relative to not allocating harvest shares to processors.
 - Firms that own processors and LLP licenses may will receive QS based on processing history and LLP license fishing history. p. 249
 - The asset value of QS may be used as collateral for loans or compensation for leaving the fishery. Lower asset values may reduce the size of a loan that could be secured and would reduce to the value LLP holders receive for exiting the fishery.



SSC COMMENTS ADDRESSED

- Processor allocation impact on CVs movement between cooperatives
 - This issue was addressed primarily in terms of whether a CV operator could receive sufficient compensation from another processor to change cooperatives.
 - Staff did not attempt to quantify the impact of various percentage changes considered by the Council. Instead, the discussion focused on being able to make up for a relatively small reduction in CQ available to them versus a larger reduction.
 - For example, another processor may be able to provide compensation, in some form, to make up for a 5% reduction in CQ provided by another processor but may be less able to make up a 30% CQ reduction.
 - If a CV operator cannot be sufficiently compensated for losses of CQ it is assumed that they will need to forgo some profit to change cooperatives and that may limit their rational options.



SSC COMMENTS ADDRESSED

- Data Collection
 - The Council did not address this issue at its June 2021 meeting.
 - Staff did add some information in Section 2.5.8.3. that described information that could be available and what would not.
 - The CAS will collect data on catch and ex-vessel value.
 - First wholesale information will be collected from production reports and Commercial Operator's Annual Reports (COAR).
 - Data on QS transfers could be collected by NMFS as part of the LLP license transfer process. It would likely be difficult to assess a value to the Pacific cod QS relative to the other endorsements and QS that may be assigned to that LLP license. Annual CQ transfers between cooperatives, that must be approved by NMFS, could include the price paid for the CQ. When these are arm's length transactions, they could provide an accurate reflection of the annual value of the Pacific cod CQ. Transfers within a cooperative would not be tracked.
 - Information that is currently unavailable and is not proposed to be collected at this time includes cost data from the processing and harvesting sectors. These data were collected on the West Coast as part of the LAPP.



SSC COMMENTS ADDRESSED

- Gear Conversion
 - Element 14 – gear conversion would authorize BSAI Pacific cod CQ to be harvested by vessels using pot gear.
 - Specifically, CQ derived from LLP licenses or processor permits assigned to cooperative could be harvested by vessels that are listed on cooperative application that are named on an authorizing LLP license with eligible area endorsement.
 - The number of vessels that will use the gear conversion provision is unknown.
 - Instead, the analysis attempts to understand the potential impacts of pot gear on PSC if used to fish CQ.
 - Section 3.3 of the EA provides a framework using PSC composition from 2015-2020 in the BSAI Pacific cod fishery for trawl CV sector and pot CVs \geq 60' sector.



SSC COMMENTS ADDRESSED

■ Gear Conversion

■ Assumptions

- Pot CV $\geq 60'$, for purpose of PSC impacts, was selected due to the requirement of 100% observer for any vessels harvesting PCTC CQ.
 - It was assumed that pot vessels < 60' (would be less inclined to harvest PCTC CQ due to the difficulty in accommodating observers onboard the vessel.
- It assumed as more CQ is harvested by pot gear, there would be a proportional increase in PSC for pot gear and decrease in PSC by trawl gear.
- Analyst note that any transfer of CQ from trawl gear will disproportionately increase the amount of harvest effort for pot gear and subsequently increase PSC for pot gear.
- Also assumed that vessels using pot gear to fish CQ would choose to fish under the existing footprint as the pot CV $\geq 60'$ sector (i.e., same location and timing).
- Table 3-8 (page 451) shows estimated PSC as a result of gear conversion under different scenarios.



SSC COMMENTS ADDRESSED

- The SSC ***recommended*** distinguishing consolidation from specialization in Pacific cod and other species.
 - Discussion has been revised to more clearly distinguish between consolidation of effort/direct participation in the Pacific cod fishery and vessels that would remain active in commercial fishing outside of the Pacific cod fishery by focusing on other fisheries in their annual round portfolio.
 - From a community perspective, retention of active local vessels focused on other fisheries would be a key to minimizing adverse effects of the consolidation of CV effort in the BSAI Pacific cod trawl fishery as, for example, crew would still be employed, fish would still be delivered, and support service businesses would still have those vessels as a part of their customer base.



SSC COMMENTS ADDRESSED

- The SSC *recommended* distinguishing consolidation from specialization in Pacific cod and other species (continued).
 - Within Alaska, trawl CV and LLP license ownership largely concentrated in Kodiak and among CDQ groups.
 - Whether individual Kodiak CVs would choose to harvest or lease out CQ would be influenced by initial allocation amount, other opportunities available to the vessel in the BSAI versus the GOA, and the efficiency of the vessel in harvesting BSAI Pcod relative to other CVs in the same co-op, among other factors.
 - In 2019, of the Kodiak vessels active in the fishery, 57/43 percentage split between AFA/non-AFA vessels (but caveat re: small numbers). For comparison:
 - Seattle MSA and Newport OR both 83/17
 - Other WA and Other OR both 67/33
 - Existing patterns of community dependency on the fishery via shore-based processing are unlikely to fundamentally change under the PPA.
 - Unalaska/Dutch Harbor and Akutan (and Adak when operational)
 - King Cove and Sand Point – differential effects expected



SSC COMMENTS ADDRESSED

- The SSC ***recommended*** general consideration of the implications of climate change on the harvesting fleet and engaged communities be included in the cumulative effects section.
 - The analysis now notes that the PPA would allow for greater predictability for fishery participants and would provide for increased operational, spatial, and temporal flexibility in response to a range of potential changes in short- and long-term fishery conditions.
 - This flexibility has the potential for decreasing vulnerability to adverse conditions and increasing resilience following adverse events or accompanying adverse trends, including adverse effects of climate change, for involved individuals, entities, and communities.



SSC COMMENTS ADDRESSED

- The SSC *recommended* the description of elements be reduced and the analysis be more concise and focus on predicted effects
 - Council provided the PPA and provided direction on revision of the two existing action alternatives; no major elements or options were removed.
 - Expected Effects of the Alternatives section was more tightly focused on the PPA and revised alternatives.
 - Summary of Effects tables have been added to increase accessibility to key predicted effects.

