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**Testimony in support of HB141 / CQE Revolving Loan Fund  
Alaska House of Representatives Special Committee on Fisheries  
February 17, 2011**

**GULF OF ALASKA COMMUNITY QUOTA ENTITY (CQE) PROGRAM:  
FAQS (Frequently Asked Questions) and Background Information  
Affecting 42 Gulf of Alaska fisheries dependent communities  
Prepared by: The Gulf of Alaska Coastal Communities Coalition (GOAC3)**

For the record, my name is Gale Vick and I am the Executive Director of the Gulf of Alaska Coastal Communities Coalition, or GOAC3, a private non-profit representing certain interests of 42 fishing communities in the Gulf of Alaska. Thank you for this opportunity to speak to HB141 proposing a CQE Revolving Loan Fund.

GOAC3 supports HB141 and we appreciate the efforts of Representative Austerman and Representative Wilson in introducing this legislation.

Small Gulf of Alaska fishing communities face an unprecedented collective loss of fishing access which directly translates into loss of culture, income, jobs, future jobs, and infrastructure with a corresponding increase in social problems. This has resulted in an out-migration of population, more burden on existing residents and, in too many cases, loss or threatened loss of a school. This dramatic shift can only be stopped by creating ways to bring back non-transferable fishing effort that is “anchored” within the community.

Unlike the highly successful CDQ program of Western Alaska, the once highly diversified and stable fishing communities of the Gulf of Alaska, did not receive any portion of the 1995 Halibut and Sablefish IFQ program, the first federal rationalization program in the Gulf. The 2004 CQE program was created by federal regulation as a way to bring back fishing effort to smaller Gulf communities that illustrated a significant loss of fishing revenue since 1995.

The CQE program is *purchase only* and unfunded, the price of entry into the quota market is enormously high, and conventional financing is both unavailable and unsupportable for a remote community non-profit, resulting in a miniscule amount of CQE participation. The GOAC3, with the assistance of economists, social scientists and policy summits, has concluded that the only way to facilitate CQE participation is through a massive buy-out or a highly specialized loan program. No such private or public loan options exist.

The CQE program is a highly sustainable program with the right financing package but if financing does not support the right economic model, the program becomes too marginalized. The 2004 CQE loan program has not been utilized because of the steep requirements for a 35% collateral match and high interest.

It has taken over six years for CQE communities to fully illustrate the inherent difficulties of purchasing quota as a community. With the help of the University of Alaska, the Alaska Marine Advisory Program and the North Pacific Fisheries Trust as well as community economists, the GOAC3 has identified an economic model that allows a CQE to purchase the minimal amount of quota share needed for community stimulation with the appropriate lease rates and debt service.

The proposed CQE loan legislation, HB141, has identified loan parameters that come the closest to fitting the CQE economic model as anything that currently exists. Because of the extraordinary needs of start-up non-profit CQEs with no collateral or capital assets, the GOAC3 respectfully suggests that the terms of the loan program be altered to 30 year terms, no equity match on the first purchases, and prime + 1%.

The economic stimulus of HB141's ability to fund CQE quota could reach into a multitude of jobs and thousands of dollars of local income. It will encourage growth of other fisheries and will encourage young families to stay or move back to their home communities.

Thank you for your time and consideration of this very important legislation.

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The following is a brief history of the CQE program, why it is important to seek adequate loan legislation, and what terms are needed for such a loan.

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## BASIC FACTS

- (1) Gulf of Alaska fishing communities have a long history, in some cases hundreds of years, of economic sustainability utilizing their access to multi-species marine resources. Many of these communities have no other economic engine than productivity from the sea.
- (2) Catch share allocations or “rationalization” of fisheries within the last 15 years have resulted in significant economic loss to small fisheries dependent communities of the Gulf of Alaska to the point that economic survival is threatened.
- (3) As the CDQ (Community Development Quota of Western Alaska) has illustrated, the only way to have stability for community fisheries economics is to have fishing effort anchored within the community in perpetuity through a community allocation. The Gulf of Alaska does *not* have a corresponding community allocation program to the highly successful CDQs who have received much of their quota as a direct allocation of annual catch limits or of quota.
- (4) Individuals in a community normally must consider family and personal needs before community needs in their decision making. Communities dependent on those decisions are much more vulnerable under a rationalized rather than an open access fishery.
- (5) Years of research<sup>1</sup> indicated that the 1995 Halibut and Sablefish IFQ program had resulted in a dramatic out-migration of fishing effort within isolated Gulf of Alaska fisheries-dependent communities that were under 1500 in population, at tidewater and not connected to a hub by a road system.
- (6) Because the Halibut and Sablefish IFQ program was already fully allocated, it was necessary to find an alternative way for communities to hold quota. Based on the requirements of National Standard #8 of the Magnuson-Stevens Fishery Conservation and Management Act (MSA) to provide for consideration of community impacts, the Gulf of Alaska Coastal Communities Coalition (GOAC3) began petitioning the North Pacific Fishery Management Council (NPFMC) in 1999 to consider alternatives.
- (7) The NPFMC passed Amendment #66 in April of 2002 that was approved by the U.S. Department of Commerce in June of 2004, creating the CQE - Community Quota Entity program - to allow 42 fishing communities in the Gulf of Alaska to form non-profit organizations eligible to *purchase* halibut and sablefish quota in IPHC (International Pacific Halibut Commission) Areas 3A, 3B and 2C of the Gulf of Alaska to *lease*, on an annual basis, to local community residents. There was no funding for purchase or operations attached or identified.

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<sup>1</sup> Some of the earliest indicators came through a CFEC (Alaska Commercial Fisheries Entry Commission) report.

- (8) GOAC3 worked with many financing groups around Alaska and the country to help identify favorable loan options. Despite some heroic efforts, including private sector, none of the existing options worked with a CQE economic model. The previous CQE loan program the Alaska Legislature passed in 2004 required a 35% equity match which immediately proved to be too onerous to unfunded non-profits with no collateral. Many people outside the CQE communities thought that local and regional corporations would be able to assist but there were a number of legal and economic reasons why this could not happen.
- (9) Because of the lack of funding and viable loan options, the CQE program, since being implemented in 2004, has resulted in only a single purchase of a small amount of halibut quota by one CQE group.

## **BACKGROUND**

“To follow the history of fishing in Alaska is to understand Alaska itself. Fishing has been the primary or secondary economic support industry for the state for centuries. There is nothing that captures so much the very essence of Alaska’s collective culture as the epic battles for the rights to fish. ... It can easily be argued that the history of fishing in Alaska belongs to the millennia, to the indigenous coastal and river populations who have depended on their adjacent marine resources since possibly 12,000 years ago. Many indigenous cultures are thought to have been incredibly rich by the standards of times past, with an abundance of food caught and preserved by some very ingenious methods. Fisheries in the indigenous world were harvested for the communal good and the sea was the primary source of sustenance. The name “Alaska” itself is most commonly felt derived from the Aleut word “*alaxsxaq*” often translated as “mainland” or “great land” but meaning literally “the object toward which the action of the sea is directed” or “where the sea breaks its back.” The concept of “ownership” of Alaska’s marine resources changed dramatically with Western contact, beginning with the arrival of the Russians in the late 18<sup>th</sup> century and continuing through a roller coaster of events and actions that sought – and still seeks - to control the incredibly productive North Pacific. Control over Alaska’s fisheries resource was one of the primary motivators for Alaskan Statehood in 1959 and from statehood to the present, there has been continual friction between State and federal fisheries management and beneficiaries.”<sup>2</sup>

As this introduction implies, Alaska’s coastal communities have historically been dependent on their adjacent marine resources for survival. As remote Alaskan fishing communities have merged into cash economies, this survival has been seriously threatened by an increasing shift in regulatory management that has sought to manage each fishery more efficiently. However, “unintended” consequences of these regulatory actions have rocked the foundations of small fishing community economics.

### **1. WHAT IS “RATIONALIZATION” AND WHY IS IT A PROBLEM?**

Rationalization is a term that describes a change from an open access fishery to a closed access system where fishermen have certain rights to fish a specific amount of fish and no more.

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<sup>2</sup> “A Brief Timeline of Commercial Fishing in Alaska”, by Gale K. Vick, published by *The Alaska Business Monthly*, 2007

Rationalization describes a process. In current terminology the outcome is often a “catch share” program.” Initial issuance or initial allocations to individuals (IFQs) are based on previous fishing history formulas, although not all fishing history is considered. Community allocations have other bases. Individuals or communities who receive initial quota they have not had to buy have an extreme advantage over participants who do have to buy all their quota.

In state waters, Alaska implemented the Alaska Limited Entry program in 1975 which limited the number of salmon permits that could be held in a given area. In 1991 specific communities of Western Alaska were allocated 7.5% of pollock total allowable catch (TAC) in the Bering Sea, forming the CDQ (Community Development Quota) program. In 1995, the federal government implemented the Halibut and Sablefish IFQ program without any community provisions. In 1998, the American Fisheries Act was established rationalizing the Bering Sea pollock industry. In 2004 the CQE (Community Quota Entity) program for 42 communities of the Gulf of Alaska was approved but not funded. In subsequent years, crab fishing was rationalized in the Bering Sea, rockfish was rationalized in the Gulf of Alaska, Pacific cod and other groundfish were allocated to sectors in the Gulf of Alaska and halibut charterboats were placed in a limited entry system.

As species are rationalized, the ability to sustain multi-species (or “combination”) fishing is severely compromised or eliminated. This is an essential point for small boat fleets in small isolated communities. Open access management regimes gave small communities one major advantage - the cost of local expert traditional fishermen was low and essentially guaranteed that the community would have the access to the resource they needed to survive as a community. With the loss of fishing effort, there is a corresponding loss of experienced fishermen, boats and gear. It is a downward spiral affecting all in the community.

**Catch shares are very controversial.** There is extensive data illustrating the socioeconomic downsides to catch share systems that do not have sufficient community protections. The social and cultural costs to our small fishing communities as a result of catch share programs is inestimable. One of the most haunting and notable images is how empty the docks are in many fishing communities now. Less than 20 years ago, the docks would be teeming in-season, with kids swaggering because they were going out to work on family fishing boats. They learned valuable skills for the future and even if they did not eventually go into fishing for a living, those skills served them well in other ventures. Now boats are gone, parents have moved elsewhere to find jobs, fewer kids are working in family fishing operations and there is an increase in social problems such as abuse and addictions. All of this is really unnecessary, to say nothing of unfair.

The aggregate outcome of species-specific rationalization is that it benefits a few and shuts out many. Catch shares become commodities and show consolidation trends. Fishing catch shares, unless specifically tied to a community, encourage the out-migration of fishing effort from low or non-capitalized arenas to highly capitalized arenas. Markets in a rationalized fishery have shown steady, if not dramatic, growth, making catch shares very valuable and thus, expensive. Community groups who have been allocated TAC or catch shares (Bering Sea / Aleutian Islands west) have grown exponentially while communities that have not received any allocations (as in the Gulf of Alaska) have shown dramatic declines in fishing economics. Individuals who own quota can leverage to buy more quota (up to use caps) and individuals who have other equity can use that to leverage. Of course, there are down sides to this. Quota that is sold or defaulted goes into a highly competitive market; it can then only be bought by those who can afford the high

market cost. Individuals must make decisions based on personal economics; not the needs of the community. Fishing effort is likely to continue to migrate out from all Alaskan communities, for various reasons.

What does this mean to Alaska? ***The only way to guarantee that rationalized federal fishing effort will stay in Alaska is to “anchor” that effort in community ownership.***

## **2. WHAT IS A FISHERIES-DEPENDENT COMMUNITY?**

A “fishery-dependent community” is a community that is predominantly dependent on fishing – commercial, charter or other – as the primary source of income for community residents. This also tends to mean that there are few, if no, other resource options for community sustainability.

For the Gulf of Alaska, a *sustainable* fishing community has historically been a community with a small boat fleet (generally 58’ and under) fishing in a multi-species open access fishery which allowed maximizing fishing seasons, closures or bad weather.

There are in excess of 85 communities in the Gulf of Alaska at tidewater. 42 of them have been designated “CQE” communities by the federal government.

## **3. WHAT IS A CQE?**

As early as 1998, the Gulf of Alaska Coastal Communities Coalition (GOAC3) was concerned about the “out-migration” of fishing effort from small Gulf of Alaska fishing communities as a result of the 1995 Halibut and Sablefish IFQ program. Because that program was already fully subscribed, there were few options for community inclusion except a *purchase* or “buy-in” option. In 2002, the CQE program was approved by the North Pacific Fishery Management Council but not made into regulation until approved by the Secretary of Commerce in 2004.

A CQE is a community non-profit in the Gulf of Alaska, formed after 2004 and subject to the rules and regulations of the CQE program as defined by 50 CFR Part 679, published in the *Federal Register*/Vol. 69, No. 84/Friday, April 30, 2004/Rules and Regulations. CQEs are authorized to be buyers of halibut and sablefish quota for lease to local community residents. There are a multitude of rules that further define the limits of purchase, how they are to be used and what is required of the CQEs for performance.

### **Eligible CQE Communities:**

#### Southeastern Alaska

Angoon, Coffman Cove, Craig, Edna Bay, Elfin Cove, Gustavus, Hollis, Hoonah, Hydaburg, Kake, Kasaan, Klawock, Metlakatla, Meyers Chuck, Pelican, Point Baker, Port Alexander, Port Protection, Tenakee, Thorne Bay

#### Southcentral and Aleutians East Alaska

Akhiok, Chenega Bay, Chignik, Chignik Lagoon, Chignik Lake, Halibut Cove, Ivanof Bay, Karluk, King Cove, Larsen Bay, Nanwalek, Old Harbor, Ouzinkie Perryville, Port Graham, Port Lions, Sand Point, Seldovia, Tatitlek, Tyonek, Whale Pass, Yakutat

#### **4. WHY IS A CQE DIFFERENT THAN AN INDIVIDUAL BUYER?**

While this seems like a nonsensical question, many people do not think about the vast differences between how an individual might buy and fish quota vs. how a CQE must operate. A CQE is only a buyer of quota, through a non-profit organization, but cannot fish the quota themselves. CQEs must find financing that will loan to an unproven organization with no initial assets. CQEs must charge lease rates that help the CQE pay its debt service and minimal overhead as well as allow leasees to have sufficient benefit to run their operations. CQEs have several extra layers of costs and responsibilities that individuals do not.

CQEs must fund operational costs and oversight and must identify potential local leasees on an annual basis. Further, CQES have specific reporting requirements to the National Marine Fisheries Service. CQEs have many restrictions and limitations on how, where and what kind of quota they can purchase.

#### **5. HOW IS THE CDQ PROGRAM COMPARED TO THE CQE PROGRAM?**

The CDQ (Community Development Quota program of Western Alaska) is almost the polar opposite of a CQE. The CDQ program – which preceded the H&S IFQ program by a few years – is incredibly successful because it received initial issuance of quota, starting with a percentage of the pollock TAC and eventually all rationalized species. Because the CDQ communities were a small boat fleet they developed joint venture partnerships with the highly industrialized fleet of the Bering Sea.

The CDQ participants have been able to leverage that “gifted” allocation into building an infrastructure that has allowed them to buy additional quota and other fisheries and non-fisheries holdings. It has been a very powerful economic engine for Western Alaska and will continue to grow if well managed. It will anchor a certain amount of fishing effort in western Alaskan fishing communities long into the future. This is a good thing in general. How the CDQ program evolves will be up to the people of those regions.

In contrast, the purchase-only CQE program of the Gulf of Alaska has a “pail without water” as one of our board members puts it. It remains an unfunded program, implemented nine years after the original program was fully allocated.

The contrasts between the CDQ (Community Development Quota) program in Western Alaska vs. the CQE (Community Quota Entity) in the Gulf of Alaska offers a perfect laboratory for comparison of ways to protect (or not) local fishing communities in an increasingly rationalized fish world. This comparison should be a lesson to all of us.

#### **6. WHY HAVEN'T CQES BOUGHT QUOTA?**

It is certainly not from lack of trying. CQE groups have worked individually with their accountants and economic advisors and have worked collectively, trying to identify a loan program that is not a recipe for failure.

CQEs are authorized to *purchase* up to a specific amount and kind of halibut and sablefish quota share but were never given initial issuance<sup>3</sup> of quota nor any funding to purchase quota, so funding is the essential issue.

CQEs are stand-alone non-profits. While there is an identified local government or tribal organization that (by law) must “approve” the creation of the CQE, there is no local group that can assume their fiduciary responsibility. CQE communities have both Native and Non-Native populations, which hinders the restrictions on potential assistance from Native corporations.

CQE communities are remote, have very little to no access to capital, and cannot afford to take on a huge debt-service that won’t pay for itself. CQEs currently have no equity and will not have equity until they buy quota. But so far they have not been able to buy quota because they can’t put up the collateral.

The local pool of people who can manage CQE responsibilities can be very small. And, still, most of the communities know that they must regain their access to fisheries in order to survive.

## **8. WHY CAN’T NATIVE CORPORATIONS OR TRIBAL GOVERNMENTS GUARANTEE CQE LOANS?**

- (a) Native corporations have a fiduciary responsibility to all their shareholders
- (b) Native corporations have been sued for “disproportionate dividends”
- (c) Natives corporations have gone bankrupt investing in fisheries
- (d) CQEs are “community” organizations, not exclusively Native
- (e) Native corporations must individually make a decision on their level of participation with CQEs depending on their own circumstances and policies
- (f) Participation by Native corporations in the CQE quota purchase cannot be mandated
- (g) Tribal governments have further legal and financial limitations

## **9. WHY CAN’T COMMUNITY ORGANIZATIONS FUND CQE QUOTA PURCHASE?**

- (a) Cities, borough governments and community associations all have fiduciary responsibility to their constituents and cannot place assets into jeopardy
- (b) City, borough and association participation in CQE quota purchase cannot be mandated

## **10. WHAT IS THE “RIGHT” ECONOMIC MODEL AND FINANCING FOR A CQE?**

While all buyers of quota share many variables in common – market value of quota, annual catch limits, annual ratio of pounds to quota share, availability of quota in either blocked or unblocked shares, ex-vessel values, vessel limitations, etc., - CQES face additional burdens of leasing and monitoring, meeting and reporting, and establishing lease rates that benefit the community while also paying debt service.

With the help of the University of Alaska, the Alaska Marine Advisory Program and the North Pacific Fisheries Trust as well as community economists, the GOAC3 has identified an economic

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<sup>3</sup> Initial issuance: Quota allocated to an individual (IFQ) or group (CDQ) at the onset of a rationalized program



model that allows a CQE to purchase the minimal amount of quota share needed for community stimulation with the appropriate lease rates and debt service.

Basic components of a supportive CQE loan program would be (a) 0 down on the first purchases of quota (after that quota share is the basic equity), (b) principal and interest payments deferred for at least the first five years, (c) terms of 30 years. The CQE economic model must also consider administrative costs as well as the impact of lease rates on participants. The primary goal of the CQE leasing is to help local residents build up their own portfolio so that they “graduate” out of the CQE leasing program.

The CQE program has a complex set of requirements. The CQE program requires extensive reporting and assumes a “code of conduct” that would allow for a fair and equitable distribution of leasing to local community residents. CQEs are not limited to purchase of halibut and sablefish but they are subject to the rules of the both the CQE program and the Halibut and Sablefish program in those markets.

#### **11.WHY ARE SOME PEOPLE OPPOSED TO THE CQE PROGRAM?**

There is always a considerable amount of tension among existing or potential participants in catch share programs. The CQE program was established by federal regulation and was intended to be not only just another potential buyer but a way to bring back fishing quota to communities that were disenfranchised by the creation of a quota share program. The CQE program has had opposition from several user groups who apparently feel that additional market buyers create too much competition and therefore raise the market prices of quota even higher as well as create competition for the availability of quota. It is hoped that, over time, these objections will be laid to rest as people realize that the social and economic health of our small communities is good for our hub communities and, in turn, good for the state of Alaska.

#### **12.WHY IS SUCCESSFUL DEVELOPMENT OF A CQE PROGRAM SO IMPORTANT TO PARTICIPATING COMMUNITIES AND THE STATE OF ALASKA?**

- (a) Most, if not all, of the CQE communities are experiencing an unprecedented loss of fishing effort that, in turn, puts their local economies at extreme risk
- (b) The CQE program can potentially allow CQE communities to rebuild their fishing economies, expend their economic options and stabilize their communities long into the future.

#### **13.WHERE CAN I FIND MORE INFORMATION ABOUT THE CQE PROGRAM?**

- (a) Federal Register Final Rule for Amendment #66 to the Halibut and Sablefish IFQ program, creating the CQE program:  
***Federal Register/Vol. 69, No. 84/Friday, April 30, 2004/Rules and Regulation***
- (b) National Marine Fisheries Service / Restricted Access Management (RAM) for rules and regulations relative to the CQE program, as well as CQE applications  
[\*\*http://www.fakr.noaa.gov/ram/cqp.htm\*\*](http://www.fakr.noaa.gov/ram/cqp.htm)
- (c) State of Alaska / CQE  
[\*\*http://www.commerce.state.ak.us/bsc/CDQ/cqe/cqe.htm\*\*](http://www.commerce.state.ak.us/bsc/CDQ/cqe/cqe.htm)
- (d) North Pacific Fishery Management Council/ Review of CQE program 2010  
[\*\*http://alaskafisheries.noaa.gov/npfmc/current\\_issues/halibut\\_issues/CQReport210.pdf\*\*](http://alaskafisheries.noaa.gov/npfmc/current_issues/halibut_issues/CQReport210.pdf)