

HJR

41

HOUSE COMMITTEE REPORT

(9)

Date Referred: April 16, 1993

FURTHER REFERRALS:

Date of Committee Action: 4/17/93

The RESOURCES Committee considered:

HJR 41

HOUSE JOINT RESOLUTION NO. 41

INDIVIDUAL FISHERY QUOTA BLOCK PROPOSALS

Relating to consideration of individual fishery quota shares block proposals by the North Pacific Fishery Management Council.

RECOMMENDATIONS:

be replaced with _____ [] the same title
 [] a new title

[] have attached amendments(s)

[] do pass

[] do not pass

[] no recommendations

[] individual recommendations

[] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

[] fiscal impact _____

[] fiscal note(s) _____

[] zero fiscal note House Resources Comm.

[] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				

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 CHAIRMAN'S SIGNATURE

Alaska State Legislature



During Session:
State Capitol
Juneau, AK 99801-1182
(907) 465-3424
Fax (907) 465-3793

In Ketchikan:
352 Front Street
Ketchikan, AK 99901
(907) 247-4672
Fax (907) 225-8546

Committees:
House Resources,
Chairman
Community &
Regional Affairs
Labor & Commerce

Representative William K. Williams

SPONSOR STATEMENT HJR41: SUPPORTING AN IFQ BLOCK PROPOSAL

BY REP. BILL WILLIAMS

The North Pacific Fisheries Management Council recently passed an Individual Fishing Quota (IFQ) plan for halibut and sablefish. A main concern that many Alaskans have about the IFQ plan is the potential for the shares to end up in the hands of only a few fishermen.

Under the current IFQ plan, it would be possible for the halibut fishery to be reduced to only 200 participants, and the sablefish fishery to shrink to only 100. Holders of large amounts of initial quota shares would likely be able to out bid smaller boat fishermen for IFQ shares. Thus, it is feared, shares will gradually shift from the smaller to the larger boat fishermen.

Consolidation of the halibut and sablefish quota shares could result in reduction of the number of boats and direct and indirect fisheries jobs in Alaska. This could negatively impact the economies of many Alaskan communities and the state.

A proposed amendment to the IFQ plan, called the Sitka Block Proposal, proposes to limit consolidation of the fleet through a series of ownership blocks. This plan would keep the fleet at a minimum size of about 570 participants. This is the 1985 level of participation and is considered to be close to the optimum for sustained yield of the fishery. A refined version of that plan, called the Partial/Full Block Proposal has recently been proposed as an alternative plan. Both proposals are before the North Pacific Fisheries Management Council for consideration as amendments to the IFQ plan.

The Management Council plans to meet the week of April 19 to consider the block proposals. HJR 41 is intended to express to the Council the concern of the Alaska Legislature about potential consolidation of IFQ shares, and our recommendation that the Council adopt some version of a block proposal to address the problem.

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. HJR 41

Revision Date: _____ Dept. Affected: Fish and Game
 Title: Consideration of IFQ block proposals BRU: CFEC
by the North Pacific Fishery Management Council Component: CFEC
 Sponsor: Williams, Olberg, Moses
 Requestor: House Resources Committee COMPONENT SERIAL NO. _____

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE FUND SOURCE:	0	0	0	0	0	0

FUNDING:

(Thousands of Dollars)

1002 Federal Receipts	0	0	0	0	0	0
1003 GF Match	0	0	0	0	0	0
1004 GF	0	0	0	0	0	0
1005 GF/Program Receipts	0	0	0	0	0	0
1006 GF/MH/IA	0	0	0	0	0	0
Other	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year (FY93) impact \$ 0

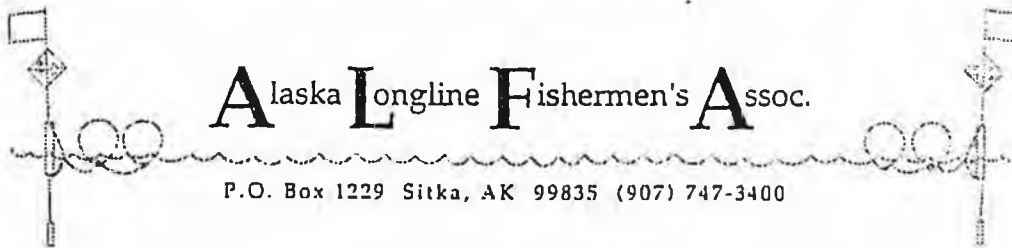
ANALYSIS: (Attach a separate page if necessary)

Resolution relates to a federally managed fishery and would have no impact on any state agency.

Prepared by: Rep. Bill Williams, Chairman
 Division: House Resources Committee
 Approved by Chairman: *W.B. Williams*
 Agency: House Resources Committee

Phone: 465-3715
 Date: 4-17-93
 Date: 4-17-93

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Alaska Longline Fishermen's Assoc.

P.O. Box 1229 Sitka, AK 99835 (907) 747-3400

November 18, 1992

BLOCK PROPOSAL SUMMARY

In September, the Council released a discussion paper on the proposed Sitka and Partial/Full Block amendments to the sablefish and halibut IFQ plan. The purpose of the discussion paper is to narrow the number of options for further study and to solicit comments on the merits of a block system. Some of the decisions that have to be made are: do the benefits of a Block system outweigh the costs? Should ownership caps be set at two or three blocks per person? Should vessel caps be set higher than individual caps? Are vessel size classes still needed? And if the Partial/Full amendment is chosen, should 10,000 lbs, 30,000 lbs, or something in between be used as the dividing line between partial and full blocks?

There are important decisions that will affect all of us. ALFA is distributing this summary to help members decide which options the Association wants to endorse.

Sitka Block Amendment

The Sitka Block amendment changes the current IFQ plan by attaching the initial allocation of quota shares permanently to a license, thus making a block. Licenses, or any amount of quota, can not be sold without selling the entire block. Since historic participation will determine initial allocations, there will be both large and small blocks allocated, with the number of small blocks greatly exceeding the number of large blocks. The number of blocks an individual can own or use on a vessel will then be limited to prevent excessive consolidation. Hence the block proposal will limit consolidation, maintain a relatively large, diverse fleet, and ensure that small quota blocks are available for new fishermen to purchase and enter the fisheries. In sum, the Sitka Block proposal will minimize the socioeconomic impacts of IFQs, giving fishermen and

Alaska's coastal communities time to adjust to changes in the fisheries.

Consolidation:

The discussion paper analyzes variations of the Sitka Block amendment that allow an individual to own two or three blocks and fish four or five blocks on a vessel. The reason for the difference between personal ownership and vessel use is to allow crewmembers and new entrants access to the fishery without the additional expense of buying a boat. Although supply and demand will determine the actual price/lb for large and small blocks, the overall price for a small block will be less than the price of a large block. This will make small blocks more affordable to crewmembers wishing to enter the fishery. However, allowing four or five blocks to be fished on a vessel will increase the amount of consolidation that can occur. The benefits of allowing more blocks to be fished on a vessel have to be weighed against the socioeconomic impacts of consolidation.

The table below compares the amount of consolidation that could occur under these scenarios with the consolidation that could occur under the current IFQ plan. The number of vessels that fished for halibut and sablefish in 1985 and 1990 are also given for a reference. For example, under the current IFQ plan the halibut fleet could be reduced to 200 vessels. Using the two blocks per person and 4 blocks per vessel rule, the minimum number of owners would be 2,807, and the minimum number of vessels would be 1,400. This compares to the 2,479 vessels that fished halibut in 1985.

TABLE 1

BLOCK OWNERSHIP SUM

	HALIBUT	SABLEFISH
# OF VESSELS IN 1985	2497	244
# OF VESSELS IN 1990	3803	684
MIN # WITH CURRENT IFQ PLAN	200	100
MIN # WITH 2/PERSON 4/VESSEL	2807 1400	853 425
MIN # WITH 3/PERSON 5/VESSEL	1877 1121	572 340

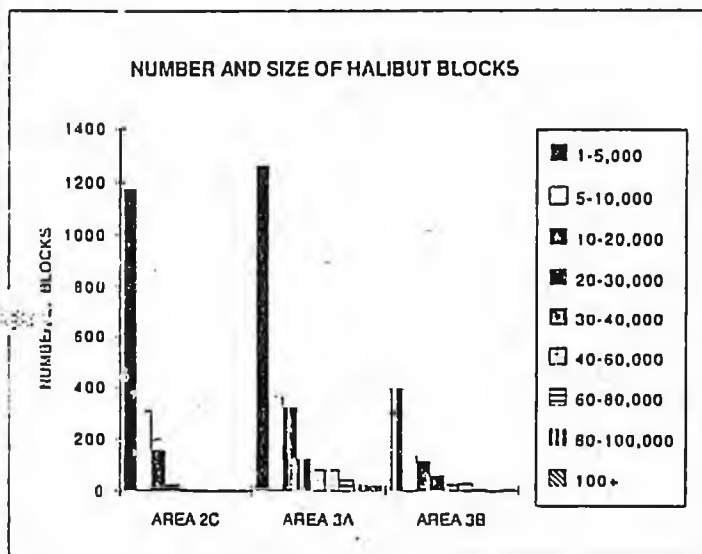
Block Sizes:

The size and abundance of blocks is also important in deciding where to set ownership and vessel caps. The graphs below shows the

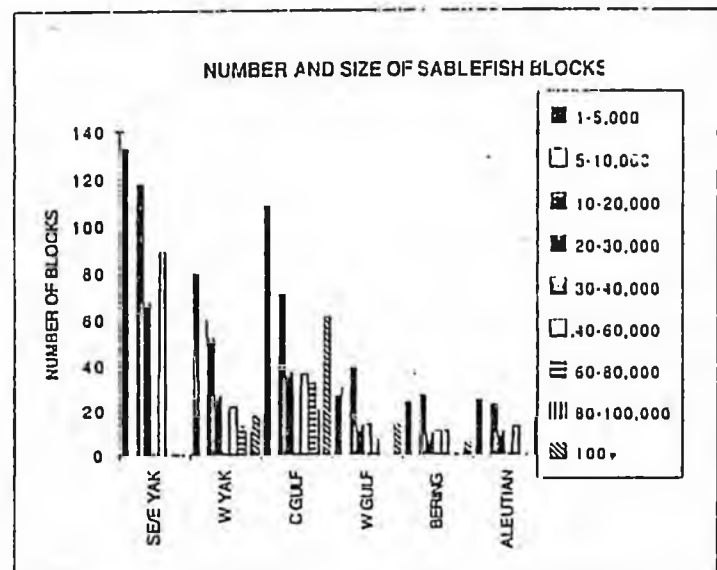
number and size of blocks that will be issued in each area. Note that although there will be a variety of block sizes, small blocks will be the most abundant. In fact, 50-70% of halibut and 20-25% of sablefish blocks will be under 5,000 lbs. This means that people buying quota will likely find small blocks most available. So in deciding ownership caps, the need to accumulate enough blocks to maintain a viable operation must be weighed against the effects of consolidation.

FIGURE 1

BLOCK DISTRIBUTION GRAPH



BLOCK DISTRIBUTION GRAPH



Vessel Size Classes:

When ALFA originally proposed the Sitka Block amendment it included the freezer/catcher vessel classes, but was seen as a replacement for the other vessel size classes. However, the discussion paper notes that "...with the Council's proposal, there is absolute protection provided among the vessel size classes. The [block] proposal would eliminate that absolute protection." In other words, under the block system market forces and the abundance of small blocks would determine which size vessels remain in the fishery rather than regulations. How comfortable are ALFA members with eliminating that absolute protection?

At ALFA's request, the analysts also examined the Sitka Block system with the vessel size classes retained. The analysts found that the inclusion of the vessel size classes in a block system does not significantly affect the amount of consolidation that can occur. However, under a block system that includes size classes, certain size classes will contain only a few blocks in some area. In these areas, buying and selling blocks will be difficult. Do the benefits of the size classes (i.e., regulated maintenance of a diverse fleet) offset the increased problems associated with buying and selling quota under a block system that includes size classes?

Cost/Benefit Summary:

The benefits of the Sitka Block amendment have been discussed many times. They include: maintaining a large and diverse fleet, ensuring that small, affordable amounts of quota will be available to new entrants, and starting the IFQ program in a conservative fashion so that fishermen and communities have time to learn about IFQs and to evaluate the impacts of the program.

The costs outlined in the discussion paper include: increased "search and transaction" costs (buying and selling), the creation of a more complex and less flexible system (having to buy or sell whole blocks rather than increments) and, potentially, the need to maintain vessel size classes to ensure the protection of the small boat fleet. An additional cost, or concern is the difficulty associated with buying and selling some of the larger blocks. Even with the largest allocated block being limited to 1/2 of the ownership cap of an area (as designated in the proposal), some sablefish blocks would be over 250,000 lbs and some halibut blocks would be over 100,000 lbs. Buying and selling these large blocks may be difficult. Eliminating these overly large blocks is one of the strengths of the Partial/Full Block proposal described below. Read on. . .

PARTIAL/FULL BLOCK AMENDMENT

Ron Hegge developed the Partial/Full Block amendment in response to concerns raised by operators of "medium and large" vessels about the restrictiveness of the Sitka Block, and in an effort to address the "monster block" scenario described above. In the Partial/Full Block proposal, each initial allocation of QS is attached to a license in 10,000 lbs increments, forming a "full" block. Allocations less than 10,000 lbs, considered "partial" blocks, are also attached to

licenses. The partial blocks are those less than 10,000 lbs and are subject to the same ownership and use caps that apply to blocks under the Sitka Block amendment (i.e. two or three blocks per person). The full blocks (over 10,000 lbs) can be consolidated up to the Council's ownership cap. To keep the full block market separate from the partial block market, any individual who owns a full block in an area cannot buy more than one partial block in that area. For example:

A person allocated 22,000 lbs of IFQs will receive two full blocks of 10,000 lbs each and one partial block of 2,000 lbs. This person may continue to buy additional full blocks up to the cap set by the Council, but cannot buy additional partial blocks as long as he/she owns a full block. A person allocated 7,000 lbs of IFQs will receive one partial block equal to 7,000 lbs, and may then buy two additional partial blocks or, as long as that person only owns one partial block, may buy additional full blocks until his or her total holdings reach the cap. In sum, the concepts and safeguards of the Sitka Block amendment apply to the partial blocks and the concepts of the current IFQ plan apply to the full blocks.

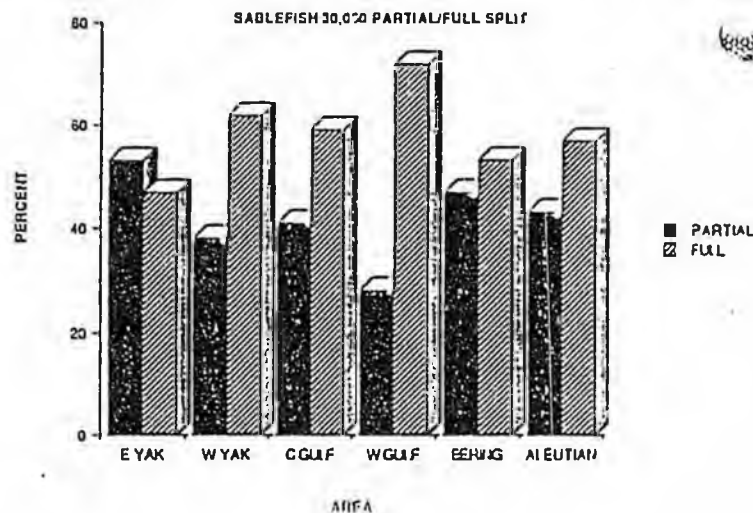
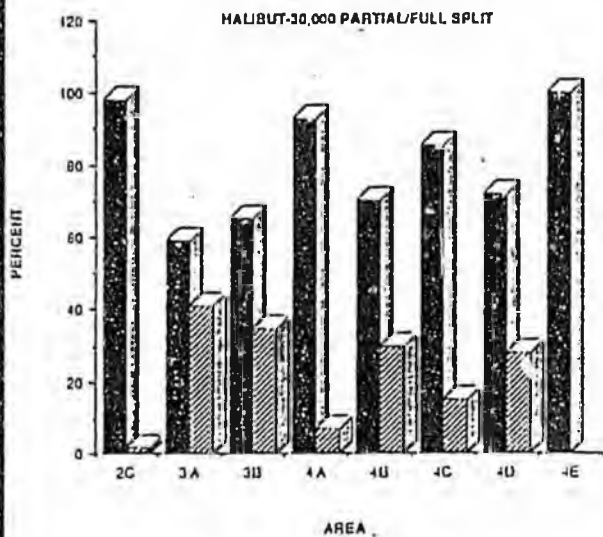
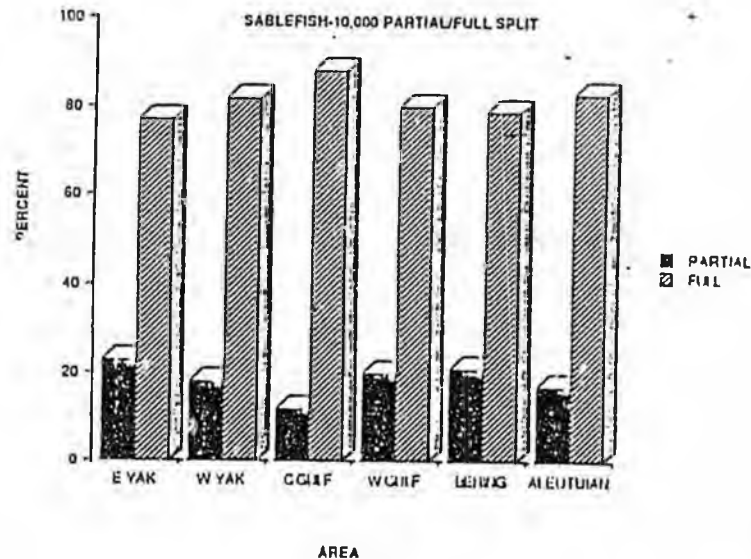
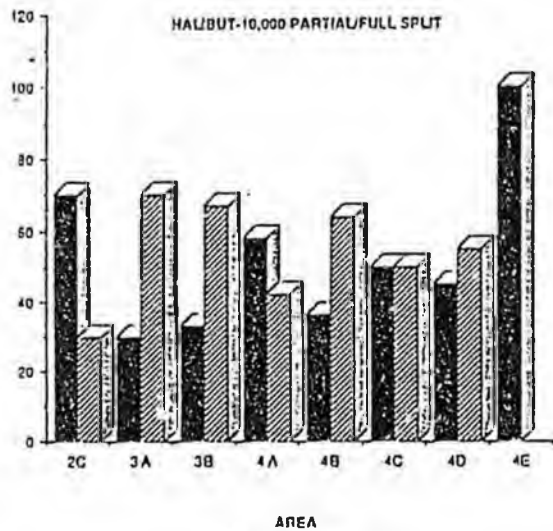
Partial/Full Dividing Line:

As stated above, under the Partial/Full Block plan the safeguards of a block system only apply to the portion of the quota "protected" as partial blocks. The 10,000 lbs division between partial blocks and full blocks was originally chosen because it represented an affordable amount of quota to buy at one time. However, the 10,000 lbs division results in only a small percentage of the sablefish and halibut quotas being "protected," hence ALFA requested that 20,000 and 30,000 lbs also be analyzed in the discussion paper as the division between partial and full blocks. Although the 20,000 lbs option has not yet been analyzed, 30,000 lbs is considered in the discussion paper.

The graphs below indicate the amount of quota by area that will be in partial and full blocks using both the 10,000 lbs and 30,000 lbs criteria. As the graph shows, the 30,000 lbs criteria results in more of the quota being included in partial blocks. It also increases the size of partial blocks available, thus allowing fishermen to accumulate more quota before having to compete in the full block market. If the Partial/Full Block system appeals to members, ALFA and, in January, the Council will be looking for input on the amount

of quota to include in partial blocks, and whether fishermen consider 30,000 lbs blocks to be "affordable."

FIGURE 2



Vessel Size Classes:

The original Full/Partial Block proposal retained the freezer/catcher vessel classes but removed the others. However at ALFA's request, the discussion paper also considered a 60' vessel size class as an option. The analysis indicates that including the 60' size class will not significantly affect consolidation but may make buying and selling quota more difficult. However, the fact that the Partial/Full Block amendment subdivides the initial allocations into

10,000 or 30,000 lbs blocks will make more blocks available in each class and in each area--i.e., under the Partial/Full Block plan, there are less "holes" in the size distribution of blocks across all the various areas and vessel size classes than exist under the Sitka Block Proposal.

Cost/Benefit Summary:

If enough of the quota is included in partial blocks, then the benefits of this system will be similar to those of the Sitka Block amendment. The discussion paper notes that the Partial/Full amendment is slightly more flexible than the Sitka Block and also addresses the problem of extremely large blocks that will be difficult to buy or sell.

The costs of the Partial/Full Block system are similar to the costs assigned to the Sitka Block amendment. These include increased "search and transaction" costs and the creation of a system less flexible than the current IFQ plan (although more flexible than the Sitka Block). If the membership feels that the 60' vessel size class must be retained to protect the small boat fleet, then the costs associated with further limiting flexibility must also be factored in.

SUMMARY

Both the Sitka Block and the Partial/Full Block amendments significantly reduce the amount of consolidation that can occur under IFQs. The Sitka Block amendment extends this protection to the entire quota; the Partial/Full Block amendment extends this protection only to the amount of quota in partial blocks. Each system has a number of options that will directly affect the fishing fleet and coastal communities. ALFA members should consider the various plans and related options presented in this summary, talk to other fishermen, and then let Dan Falvey and Linda Behnken know your thoughts. ALFA will meet again in January to vote and take a position on IFQ Block amendments (ballots will be sent to out of town members). Watch for announcements!

Because the Block amendments limit consolidation and flexibility, they reduce the economic efficiency of IFQs. The Magnuson Act sets efficiency as a management goal, hence adopting a block system will have to be justified through socioeconomic gains. In other words, the Council must weigh efficiency costs against the benefits of preserving the social stability of Alaska's coastal communities. The

communities and the block system will only win in this balancing act if significant numbers of fishermen and community residents testify or send letters to the Council expressing their support for amending the current IFQ program. Write letters, call Council members and plan to attend the January Council meeting in Anchorage. The opportunity, and the responsibility rest with each of you.

Alaska Longline Fisherman's Association
P. O. Box 1229
Sitka, Alaska 99835

INTRODUCTION TO THE DISCUSSION DRAFT

1.0 ORIGIN OF THE PROPOSALS

This discussion draft contains preliminary analyses of two proposed amendments to the North Pacific Fishery Management Council's (Council's) recommended Individual Fishing Quota (IFQ) Program for management of the fixed gear sablefish and halibut fisheries off Alaska. Part I of this discussion draft contains an analysis of "The Sitka Block Proposal". Part II of this draft contains an analysis of "The Full/Partial Block Proposal". Both proposals represent attempts to address widespread concerns about aspects of the Council's current IFQ plan.

In December of 1991 the Council recommended an IFQ program for management of the fixed gear sablefish and halibut fisheries off Alaska. For purposes of this action, the Council defined "fixed gear" to include all hook and line fishing gears (longlines, jigs, handlines, troll gear, and etc.) in the Gulf of Alaska and Bering Sea - Aleutian Islands (BS/AI) Areas and pot gear for sablefish in the BS/AI.

In April of 1992, after conducting a further analysis of the alternatives¹, the Council rejected a motion to rescind its earlier vote and directed that the IFQ plan amendment package be forwarded to the Secretary of Commerce.

At that same April meeting, the Council asked staff to analyze two proposed amendments to their IFQ plan. These were the "Sitka Block Proposal" for both the sablefish and halibut fisheries and the "1,000 Pound Minimum IFQ Proposal" for the halibut fishery. At the Council's June 1992 meeting, the Council asked staff to analyze a third proposal. This proposal has been named "The Full/Partial Block Proposal."

The Council requested that preliminary analyses of these proposals be prepared for their September meeting. Due to other commitments, NPFMC and NMFS staff could not meet that deadline. Because of the importance of these issues to Alaska, the State of Alaska's representative agreed to have the State conduct the analyses.

At the September 1992 Council meeting, the Council asked that the preliminary analyses be placed into Discussion Drafts for public review. Part I of this discussion draft contains an analysis of the "Sitka Block Proposal" and Part II contains an analysis of the "Full/Partial Block Proposal". An analysis of the "1,000 Pound Minimum IFQ Proposal" is contained in a separate Discussion Draft Report which is available from the Council.

¹See Supplemental Analysis of The Individual Fishing Quota Management Alternative For Fixed Gear Sablefish and Halibut Fisheries - Gulf of Alaska and Bering Sea-Aleutian Islands (March 27, 1992). For brevity, this document will be referred to as The Supplemental Analysis herein.

2.0 OVERVIEW OF THE SITKA BLOCK PROPOSAL

The Sitka Block Proposal was submitted by the Alaska Longline Fisherman's Association (ALFA). A copy of the original proposal is contained in Appendix A to Part I of this Discussion Draft.

The Sitka Block Proposal was developed to address widespread concerns that the Council's current IFQ plan for halibut and sablefish might result in a large consolidation of quota shares that would greatly reduce the current diversity of fishing operations in Alaska's rural coastal communities.

Sitka Block proponents think that if the current diversity of fishing operations is not maintained, the Council's IFQ program may prove to be disruptive to the social structure and economies of Alaska rural coastal fishing communities. The Sitka Block amendment seeks to achieve some of the benefits of the Council's IFQ program, while further constraining the program in an effort to ensure that a relatively large and diverse group of fishing operations will continue to exist.

While small part-time operations are allowed to purchase any amount of quota shares under the Council's current plan, Sitka Block proponents fear that the quota shares may be more valuable to larger, more full-time operations. Thus they are concerned that smaller producers, part-time participants, and entry level participants may tend to disappear from these fisheries under the Council's current IFQ plan.

The Sitka Block proposed amendment would allocate quota shares in the same amounts as the Council's present plan. However, it would alter the Council's present plan by placing a person's initial allocation of quota shares a block(s) or a quota share license(s) (QSL) and requiring permanent transfers of quota shares to be "tied" to the QSL. It would also add a new ownership capacity constraint by restricting the number of blocks or QSLs that a person could hold.

The proposed Sitka Block constraints are intended to guarantee that there will be a wide range of block sizes permanently available in an area, each of which will be appropriate to different types of fishing operations. A large number of small blocks is also meant to guarantee the continued existence of a small boat and entry level fishery.

The specifics of the original proposal can be summarized as follows:

1. Initial quota share allocations for each area shall be attached to a quota share license (QSL).² Quota shares shall remain "tied" to a QSL and may only be

²The original proposal suggested that vessel classes could be dropped if the block proposal were adopted. However, the originators of the proposal asked that the analysis include alternatives where the current vessel classes for catcher boats are maintained. If vessel classes are included, quota share

permanently sold or transferred in their entirety. There are the following two exceptions to this proposed rule:

- a. Halibut QSLs in an area which have IFQ amounting to less than 1,000 pounds may be combined as long as the resulting QSL does not exceed 1,000 pounds of IFQ.
- b. Sablefish QSLs in an area which have yearly IFQ amounting to less than 3,000 pounds may be combined as long as the resulting QSL does not exceed 3,000 pounds of IFQ.³

2. In the initial allocation, IFQs arising from a QSL should not exceed more than 1/2 of the ownership caps specified in the Council's current plan. In this Discussion Draft, 1/2 of the specified ownership cap will be designated the "maximum block size" or "maximum QSL size".

A person who receives an initial allocation of quota shares in an area in excess of the maximum block size will be issued quota shares in multiple QSLs. For example, a person with quota shares in an area equal to 1.5 times the maximum block size will be issued one QSL equal to the maximum block size and one QSL equal to .5 times the maximum block size.

3. All permanent sales or transfers of QSLs will be free and clear of all control, fiduciary trust, and/or future contract.

4. The catcher-boat vessel categories in the Council's current plan would be eliminated, while the freezer-longliner distinction would be maintained.

5. A person could not accumulate more than three blocks in an area, although the person could hold up to four blocks for a short period of time to help facilitate transfers. The original proposal also suggested that a maximum of five QSLs could be fished from one boat.

Discussions with the originators of the Sitka Block proposal indicated that they would want the leasing of quota shares (IFQ) provisions to remain identical with the Council's current plan. Thus, while quota shares can only be permanently transferred as a block, the block can be divided, to a limited extent, for purposes of seasonal transfers of IFQs.

allocations and QSLs would be area and vessel class specific.

³QSLs will contain quota shares and not IFQs. The IFQs associated with a QSL will vary each year depending upon the TAC in the area and the total number of quota shares outstanding. To make these two consolidation rules operational, the Council will need to define them in terms of quota shares. The amount of IFQ associated with those quota shares may be above or below the originally specified IFQ thresholds in subsequent years.

The originators of the Sitka Block proposed amendment also indicated that they wanted to review a number of alternative versions of the proposal. In some alternatives, the catcher-boat vessel category distinctions are utilized and quota share licenses cannot be traded across these categories.

The alternatives also vary in terms of the number of blocks a person is allowed to accumulate in an area, and the number of blocks which can be fished from a single vessel. These alternatives are explained and analyzed in Part I, Sections 4.0 through 5.4. A brief summary discussion of some of the results of the Sitka Block analysis are included in Section 4.0 of this Introduction.

3.0 OVERVIEW OF THE FULL/PARTIAL BLOCK PROPOSAL

The "Full/Partial Block Proposal" was submitted by Council member Ron Hegge. This proposal would also modify the Council's current IFQ plan for the sablefish and halibut fisheries. Mr. Hegge's original letter explaining the proposal can be found in the appendix to Part II of this discussion draft.

The Full/Partial Block proposal, like the Sitka Block proposal, attempts to address some of the concerns which have been raised about the Council's current IFQ plan by small vessel operators, crewmen, and coastal fishing communities. Again, the concern seems to be that IFQs may be bought up by large full-time operators and the fisheries will no longer be profitable for small-time operators or new entrants.

Mr. Hegge felt that the Sitka Block proposal would address those concerns but that it also would create new opposition to the program among medium and large operators. Mr. Hegge offered the Full/Partial Block proposal as a possible compromise between the Council's current IFQ plan and the Sitka Block proposal.

The basics of the original Full/Partial block proposal are as follows:

1. Persons would receive the same amount of quota shares that they would get under the Council's current plan. However, some new constraints would be added which would tie quota shares together for purposes of permanent transferability.
2. Persons would be issued quota shares in "blocks". In each area, the number of quota shares which represents 10,000 pounds of IFQ in the implementation year would be established as a "full block" for the area.⁴ Quota shares representing amounts less than 10,000 pounds would be put into "partial blocks".
3. A person who has quota shares worth less than 10,000 pounds of IFQ in the implementation year would be issued one partial block containing those quota shares. A person who has quota shares worth more than 10,000 pounds of IFQ in the implementation year would be issued one or more full blocks and one partial block containing those quota shares.
4. The number of full blocks initially issued to a person would be determined by dividing the person's quota shares by the number of quota shares which represents 10,000 pounds in the implementation year. The whole number resulting from that division would be the number of full blocks. The remainder resulting from that division would be placed into a single partial block.

⁴Note that in subsequent years, the amount of quota shares in a full block could be more or less than 10,000 pounds of IFQ as TACs change.

5. The quota shares initially allocated would remain permanently tied to these blocks. The amount of quota shares contained in a partial block would be variable. The amount of quota shares contained within a full block would be permanently fixed by area.
6. A person could hold any amount of full blocks as long as that amount did not exceed any of the ownership constraints in the Council's current plan. A person who holds a full block(s) in an area can hold only one partial block.
7. A person who holds no full blocks in an area could hold up to three partial blocks in that area.
8. The Council's current IFQ plan defines catcher-boat size categories and prohibits transfer of quota shares across those categories. Under the Full/Partial Block proposal these transfer restrictions would be removed. The distinction between catcher-boats and freezer-longliners would be maintained.

Mr. Hegge felt that the Full/Partial Block proposal would address the concerns of small part-time operators and potential new entrants without unduly restricting the potential opportunities for profitable consolidations among medium and large operators.

The permanent existence of a large number of relatively small partial blocks of variable size in each area, coupled with the constraint on the number of partial blocks that a person could hold is intended to ensure the continued existence of a fleet of small part-time operators. It is also intended to ensure that entry level amounts of quota shares will be available for new entrants.⁵

The existence of a number of equal-sized full blocks in an area, coupled with the removal of trade restrictions across catcher-boat size categories, is intended to allow the creation of larger, more full-time operations.

Besides the original Full/Partial block proposal, a number of variants of the proposal were examined in this Discussion Draft. These alternatives varied the number of quota shares contained in a "full block". Full blocks containing quota shares worth 10,000 pounds, 20,000 pounds, and 30,000 pounds in the implementation year were all examined.

Additionally, the restriction on holdings of partial blocks (only) in an area was altered between a maximum of two partial blocks and a maximum of three partial blocks, and

⁵Under the Council's current IFQ plan, a new entrant or small part-time operator could purchase any amount of quota shares on the market. Both the Sitka Block proposal and the Full/Partial Block proposal implicitly assume that full-time operations will be the most profitable under the Council's current IFQ plan and such operations will be willing to pay the most for quota shares. Consequently, the proposals also assume that small part-time operations will tend to disappear if the Council's current IFQ plan is not altered.

4.0 SUMMARY AND OVERVIEW OF THE RESULTS

The following subsections briefly summarize some of the findings of the analyses of the Sitka Block Proposal and the Full/Partial Block Proposal. Subsection 4.1 presents estimates of "maximum potential consolidation" in the halibut fishery under each of the alternatives. Section 4.2 presents similar results for the sablefish fishery. Section 4.3 provides a brief discussion on economic efficiency and distributional aspects of these proposals.

A major objective of both the Sitka Block Proposal and the Full/Partial Block Proposal is to reduce the potential for consolidation relative to the Council's current IFQ plan. Proponents think that placing quota shares permanently into blocks, creating a large number of relatively small blocks, and restricting the number of blocks (or partial blocks) that a person can hold, will ensure the continued existence of a diverse fleet which includes smaller part-time operations.

Both the Sitka Block alternatives and the Full/Partial Block alternatives were analyzed to see if the plans reduced "maximum potential consolidation" relative to the Council's current IFQ plan. Maximum potential consolidation was intended to be an estimate of the minimum possible number of quota share holders under each alternative. The procedures used for estimating maximum potential consolidation are described in Parts I and II of this discussion draft.

Maximum potential consolidation is not intended to be a forecast of the actual consolidation that will occur under each alternative. Actual consolidation is difficult to forecast. The authors suspect that actual consolidation will be less than maximum potential consolidation under all alternatives including the Council's current IFQ plan.

Which alternative will produce less actual consolidation of quota shares is unclear. Nevertheless, if actual consolidation is proportional to estimates of maximum potential consolidation, the analyses suggest that there will likely be more quota share holders remaining in the fishery under these alternatives than there would be under the Council's current IFQ plan.

4.1 Maximum Potential Consolidation - Halibut Fishery

The authors used the ownership caps specified in the Council's plan to estimate maximum potential consolidation in the halibut fishery. The Council's current IFQ plan served as the status quo-alternative in these analyses.

The Supplemental Analysis indicates that the ownership cap restrictions, to the extent that they are enforceable, will prevent the number of quota share holders and the number of vessels in the halibut fishery from falling below the following levels:

two catcher vessel length classes were introduced. An analysis of the Full/Partial Block proposal can be found in Part II of this Discussion Draft.