SB 315

HOUSE COMMITTEE REPOI

(11)
Date Referred to Committee: March 31, 2004 FURTHER REFERRALS:

Date of Committee Action: 4/29/04

The FINANCE Committee considered: SB 315

SENATE BILL NO. 315 ENTRY PERMIT BUY-BACK PROGRAM

"An Act relating to the administration of commercial fishing entry permit buy-back programs."

Recommends it be replaced with [ ] HCS *or* [ ] CS *for* _____(_____)
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_____ [ ] Same Title [ ] New Title

[ ] attach amendments
[ ] add new referral to _____Committee
[ ] Letter of Intent_____Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

NEW FISCAL NOTES *Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero
DFG	1			✓

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
K. Meyer	Meyer	X			
Mike Hawker	Hawker	X			
Bill Stoltze	STOLTZE			✓	
Carl Croft	CROFT			✓	
Ralph Samuels	MOSES			X	
Mark Chenault	Chenault	X			
Hugh Fate	Fate			✓	
Jeannette James	FOSTER	X			
Chair:					
Chair: Ed Dersham		X			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 315
(S) Publish Date: 2/27/04

Revision Date/Time (Note if correction):

Dept. Affected: Fish and Game

Title: Commercial Fishing Entry Permit Buy-Back Program
Sponsor: Senator Stevens by request
Requester: Salmon Industry Task Force

RDU: Comm. Fish Entry Commission
Component: Commercial Fisheries Entry Commission
Component No.: 471

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ( )	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)						
1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type–Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: *(Attach a separate page if necessary)*

Prepared by: Shirley Penrose, Administrative Officer
Phone 907-790-6960
Division: Commercial Fisheries Entry Commission
Date/Time 2/20/04 2:15 PM
Approved by: Frank M. Homan, Commissioner
Date 2/20/2004
Agency: Commercial Fisheries Entry Commission

Alaska State Legislature

SENATOR
BEN STEVENS
716 WEST 4TH AVENUE
ANCHORAGE, AK
99501-2133
(907) 269-0200
FAX (907) 269-0204

Session:
STATE CAPITOL
JUNEAU, AK
99801-1182
(907) 465-4993
FAX (907) 465-3872

Senate District N

SPONSOR STATEMENT

Senate Bill 315

"An Act relating to the administration of commercial fishing entry permit buy-back programs."

Senate Bill 315 modifies existing law governing buy-back programs. It would allow the Commercial Fisheries Entry Commission to "front fund" a buy-back program if an appropriation were received. The commission would then continue to collect funds through the designated rate of assessment in the buy-back program to "pay back" the indebtedness.

When the optimum number of permits is reached in a buy-back *and* the reasonable costs of the program have been met, the Commission will terminate the assessment in the affected fishery. SB 315 will make the administration of a buy-back program more workable.

Alaska State Legislature

SENATOR
BEN STEVENS
716 WEST 4TH AVENUE
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Senate District N

BILL ANALYSIS

Senate Bill 315

"An Act relating to the administration of commercial fishing entry permit buy-back programs."

Bill Title: Entry Permit Buyback Program

Sponsor: Senator Ben Stevens, by Request of the Joint Legislative Salmon Industry Task Force

Bill Achieves:

- Retains the language in statute for the current approach for a buyback option but ADDS language that would allow the possibility of using some other funding source to initially fund (or "front fund") a buyback and then assess the remaining fishermen in the fishery. This will provide funds to repay the money that was front-funded.
- Bill does not change any policies relative to the Commercial Fisheries Entry Commission. It merely sets up a mechanism for the state to fund and implement a buyback in an efficient manner.
- A front-fund source could be: a state or federal appropriation, private sector loan, a court settlement, or another funding source.

Current law would finance a potential buyback in this manner:

- The Commercial Fisheries Entry Commission conducts an optimum number study. The study confirms that there are too many permits in a particular fishery. A buy-back program is established to reduce the number of permits. The fishermen are assessed a fee (can be no more than 7% of the value) based on an individual's fish tickets. The assessment goes into the general fund and the legislature may appropriate the funds for the buyback.
- This method can take a long time to collect enough funds to reach the "optimum" number. The permit reduction would be so slow that benefits would not be realized for a very long time. There has, to this date, never been a buyback.

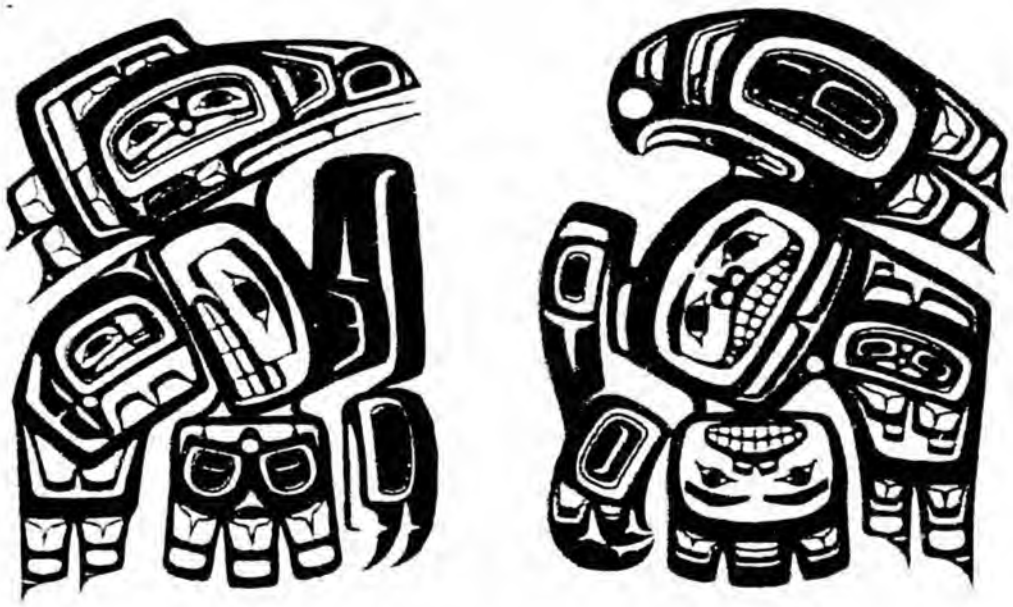
If we are fortunate enough to **find a source of repayable funding to provide for a quick, effective buyback** in a fishery for which an optimum number study determines a reduction is justified, the state *could*:

- Use the available funding to quickly buy permits down to the optimum number in one attempt;
- ***Then*** assess earnings of those who have chosen to remain in the now (presumably) more lucrative fishery to pay back the loan over time until the obligation is repaid.

Before the
Alaska State House
Finance Committee

Legislative Hearing on S. B. 315

Central Council Tlingit Haida Indian Tribes of Alaska



Opposition Comment to S.B. 315
Permit-Buy backs

Statement of
Don Bremner, Staff
Central Council Business and Economic Development
April 28, 2004

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Alaska Salmon Task Force
Issues and Process

Analysis and Recommendations

By: Gordon Jackson, Manager Business and Economic Development

&

Don Bremner,
Staff Fisheries Assistant

10/11/02

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Joint Legislative Salmon Task Force
&
Resolution

1. RESOLUTION ADDRESSES

   a. Global Salmon Market Changes

   b. Farmed Salmon Market Imports

   c. Harvesters without Markets

   d. Closed Processors and Lack of Loans

2. RESOLVED TO

   a. Address elements of the crisis in the Alaska Salmon Industry that can be solved through action on the part of the Industry.

   b. Develop a *long-term vision* for the Alaska Salmon Industry as a critical element of the State's economic future.

3. STATE TASK FORCE DUTIES

   a. State assistance to help industry adapt to changing economics in most efficient and effective way possible.

   b. Recommend public policy options regarding communities affected by the salmon industry.

   c. Find areas of potential improvement to the seafood transportation Infrastructure.

   d. Recommend improvements for the coordination of harvesting, processing, and marketing of wild Alaska salmon.

   e. Encourage development of new product forms.

   f. Investigate feasibility of regional and statewide cooperatives for fishing, marketing, and transportation for Alaska wild salmon and products.

3. STATE TASK FORCE DUTIES (Cont'd)

g. Improve marketing of Alaska wild salmon and ensure distinction of Alaska wild salmon from farmed salmon.

h. Research methods to improve the quality of Alaska salmon products.

i. Encourage Alaska hatcheries to tailor their programs to market dynamics and provide maximum possible percentages of their production to common property fisheries.

j. Contracting and cooperating with appropriate private and public agencies in order to provide sound economic social and environmental data to the decision-making process.

k. Contracting for research, consultants, and staff.

l. Benefit and costs commensurate with state funding.

m. Reviewing previous salmon summits and incorporating data in report.

n. Exploring the potential of regional solutions and not just statewide results.

4. FURTHER RESOLVED

a. **That, the Task Force shall develop a long-term vision for the Alaska Salmon Industry as a critical element of the State economic Future.**

T &HCC COMMENT ON RESOLUTION

The Alaska legislators have made a firm statement to take action to guarantee that the Alaska salmon industry continues to be an economic element of Alaska's economy.

The legislators first cited a number of factors that have added to the economic decline of the wild salmon industry in Alaska and gave direction on how the State may assist in developing a long term vision for developing successful economic programs for Alaska's wild salmon industry.

The resolution and factors cited regarding the decline of Alaska wild salmon in the market, and recommended action are only the beginning of our determination to counterattack our wild salmon competitors in the world food market.

The resolution is the first step in a long process of reclaiming our Historical Share of the world salmon markets. The resolution and recommended actions are only the "*thought stage*" or "*concept stage*" of addressing the sale of Alaska wild salmon.

LEGISLATIVE SALMON TASK FORCE SUBCOMMITTEES

T&HCC views the subcommittees as only one of many participants in the process of working towards establishing a long term vision for the Alaska wild salmon industry.

- The job of the subcommittees is to take the first step in a long process of directing a plan that will ensure the future of a sustainable fishing economy in Alaska.

- The subcommittees should be directing research that covers the historical trends of fishermen, communities, and processors that survive from commercial fishing economies, including the State role in marketing and economics of the salmon industry.

- Once the State has the historical data we can have economists assess the data and compile economic and econometric models, trends, and assist with forecasting trends based upon our agreed upon goals.

T&HCC Analysis of the Wild Salmon Industry in the World Markets

IT'S ALL ABOUT PRICES

- Prices of product are the only clear factors that we can measure in terms of impacts and lifestyle changes in the commercial fishing industry.

- Prices are attached to all participants of the Alaska wild salmon industry from fishermen to consumer.

- Prices mean food, clothing, fuel, shelter, transportation, medical, and disposable income for savings, travel, and entertainment.

- Prices mean ex-vessel prices of Alaska wild salmon caught by the fishermen and women of Alaska.

- T &HCC has recommended to the marketing subcommittee to set goals for achieving minimum average prices for all species of wild salmon in Southeast Alaska.

Who and What is a Commercial Fishermen or Women?

It may seem elementary to ask the question, but, it is the position of T &HCC that we are representing real people that live in our communities. They have families, children that attend our schools and are community and organizational leaders. They are our grandparents, parents, aunts and uncles, which have made and continue to make a living from commercial fishing. Many of them are also friends that live in other states.

The real issue is about prices, but, the beneficiaries are real people that live in our communities. We need to ask throughout this process what do real people and fishermen need?

- Access to sustained yield fishery openings compatible to wild salmon markets.

- Immediate and consistent access to markets for point of sale directly or indirectly. This means a steady buyer of salmon products.

- Recipients of minimum and stable fish prices as recommended to the marketing committee. These are minimum average prices for all species of Alaska wild salmon.
- Access to consistent and stable financial resources for start-up, maintenance, and operations of fishing permits.
- Operate within fair and consistent fishing regulatory systems, rules, and policy
- Be recognized as an important factor in the commercial fishing industry in Alaska, U.S. and foreign markets.
- Be recognized as an important party to be at the center of planning when the State and federal governments plan for fisheries policy, financial programs, and regulations.
- Recognized as people making a living that is affec ed by State, Federal, and International economies and subject to all of the factors that regula'e and affect their success or failure.
- All of these factors support making Ex-vessel prices to fishermen our number one priority.

Salmon Processors

Salmon processors in Alaska are companies that receive, buy, process, and resell salmon. This is a simple version of what the processors actually accomplish as fish buyers in our communities.

Processors are a combination of off-shore, land based, and air transport systems. Off shore today is most likely a fish buying station or partial processor. A land based processing plant is an extensive system of processing machinery used to convert raw salmon product to open market specifications. Most processing plants are near airports where charted space can be purchased to get product to fresh fish markets.

Fish processors attempt to buy fish from fishermen at the lowest prices, convert raw salmon and other seafood at the least cost, and sell in the open market at the highest price. Fish processors have certain needs in order to operate in Alaska and succeed in the fish business.

- For salmon processors it's all about profit and profit margins.
- Access to a stable and quality product from fishermen.
- Ability to operate in communities and State waters in a consistent and fair environment.
- Access to economical and stable water, sewer, power, and fuel systems.
- Access to a stable and reliable labor market.
- Access to operating loans, funds, or programs.
- Access to open markets to sell their finished product.

- Processors succeed only when they are able to buy products at a low price, process with least costs, and sell high in order to achieve their required profits and profit margins.

This means we should also be working to ensure Alaskan Salmon and Seafood processors are able to make a profit. It is important that they continue to market wild salmon so our product is not replaced by alternative products.

Distribution Channels to Salmon Markets

From experience and published materials we know all past and current National and International markets for our wild salmon products. **What we have not addressed in depth or detail are the distribution Channels to the market**. The distribution channels are business systems that handle the product while enroute to the market and final consumers.

There are short channels from fishermen to retailer and consumer, and there are many multilayered long channels. Depending upon the product and level of conversion the long channel may go from a processor to direct export; processor to an agent; processor by- pass direct to a wholesaler; wholesaler to retailer; or from an agent to a retailer or smoker, and all finally to an end consumer.

Canner distribution systems follow a similar system. The canned product follows either a short or long channel. The short route means the canned product goes direct to multiple food retailers on to final consumers. Another route in this channel is direct from canners to export.

The long channel may include paks to agent/brokers; or to wholesalers who sell to retailers and on to final consumers.

International Distribution Channels

Our salmon products have competition in the U.S. and foreign markets. Shipping to foreign markets means operating within an export system that costs money. There are export costs to shipping to these markets that add to the price of the product. By having competition in foreign markets means two things;

- Our products must meet the price of the lowest competitive products
- Or, be lower in price in order to gain market share

The final demand for our products will be set by the Per capita income of the consumer and their ability to pay.

Once the salmon product is committed to a foreign market the distribution system is similar to what takes place in the U.S. market system. There are short and long channels to the final consumer. On a short channel the product may go direct from International agents to retailers and on to final consumers. The long channel may go to agents and importer/wholesalers to local wholesalers or direct to retailers and smokers, and finally all to end consumers.

What are some of the things we need to know about distribution channels that can help the economic future of the Alaska salmon industry?

- That it is a very competitive market in the distribution channels.
- To stay alive in the channel requires quality and competitive products in terms of price and consistent supply.
- Those distributors in the channel have a stake in not only receiving a quality product, but, in promoting advertising and marketing of a product that is in demand.
- Distributors need quality, low priced, and a consistent supply of products in order to compete with the lowest price product in the market. This is especially true due to the substitute nature of wild salmon/farmed salmon in the market.
- Forward and on demand ordering is important to the distribution channels.
- Marketing salmon within existing distribution systems is a volatile business and changing consumer demand is directly felt by final distributors.

What can we do to help Improve Distribution Channels?

- Work with the State Fish & Game managers to have fisheries openings and regulations that help produce consistent, timely, and quality raw fish products.
- Work with fishermen and processors to ensure harvested wild salmon meets high standards of care, handling, and preservation.
- Work with processors to modernize, upgrade, and diversify their manufacturing equipment to accommodate specific markets and distribution channels.
- Have fishermen and processors participate jointly with advertising, promotions, and marketing partnerships with members of the distribution channels.
- We know that salmon consumers demand a common and consistent value to their product and this especially means fair prices that suppliers need to accommodate in order to compete.
- From fishermen to consumer in any market there needs to be consistent and stable price information. There should be a price information network within the Alaska salmon industry that the consumer can access on a year-round basis. If this is not available there will always be a gap between advertised value of salmon and reality of which consumers will accept.

Alaskan Fisheries Dependent Communities

Above all else, we need to emphasize that there are real communities in Alaska that depend on the successful commercial fishing industry economy. In every region of Alaska there are communities whose governments, schools, and organizations that depend upon successful fishermen, and processors to operate within their communities.

Fishermen and processors provide money and jobs to the economy. The money circulated in each community benefits schools, nonprofit organizations, stores, and many of the needed service organizations in each community. This includes water, sewer, power, police protection, and transportation.

The fishermen and processor dollars spent in each community is significant enough to warrant State and Federal participation in addressing the economics *of* the salmon industry in Alaska.

Fisheries Economics

One thing we can all agree on is that our raw fish products, fishermen, processors, distribution channels, and communities do not operate in an economic vacuum. All of these entities operate in an economic environment where theories of money, finances, and economics have real applicability. There is annual State of the Economy conditions that have been documented by the State of Alaska and national organizations that we should be using to assist in our research and marketing efforts on a yearly basis. These economic systems show market conditions from fishermen to consumer and show the economic conditions that favor our salmon products.

Our Recommendations

- T&HCC recommends there be a thorough historical economic and financial analysis of the salmon industry from 1970- to date.
- The analysis will show the State of the Economy and trends at every level from fishermen to consumer in all of our wild salmon markets.
- The economic and financial analysis will show the ideal economic environments based upon real data
- The information will show when, how, and why our salmon was replaced in all of our markets, and how we allowed competitors of our wild salmon products to take the lead.

We Have Only Two Options

We have only two options for final action regarding the sale of our wild salmon.

- We can work to reduce the world supply of salmon to increase overall demand
- Or, we can expand demand for all salmon products in all markets

HOW

We all have to understand that in order to expand the demand for Alaska wild salmon we need to accept the fact that there are substitutes for our products that can be ordered directly by retailers on demand or with forward ordering. This includes setting quantity,

quality, and size specifications. This is a current practice in all retail and wholesale markets and will continue into the future at larger and more efficient scales.

- To counter this trend we need a system of long term prices from fishermen to final consumer in all of our markets. The way to accomplish this is by agreeing on the use of and setting (10) year average ex-vessel prices.

- Processors need to modernize and streamline their systems to specific markets. To accomplish these processors need to maintain a level of effectiveness and efficiency to a level of cost per unit of operation that is standard Statewide.

- Final consumers are demanding shorter distribution channels with a variety of quality value-added products. In order to succeed with consumers it will need to be quality and efficient process.

What does this mean to our Distribution Channels?

This is an important time for our distribution channels. Fishermen and processors need to partner in deciding on the long term affects and benefits of using short or long channels. At face value, using short channels that get the product into homes of consumers offers opportunities for cost savings and a diverse product.

Fishermen and processors need to have a say in the purpose and type of marketing, advertising, promotions of Alaska's wild salmon.

Fishermen and processors need to decide if it is their best economic interest of the final consumer to benefit from marketing of generic salmon promotions or brands of Alaska wild salmon.

Benefits of Marketing

The question *of* marketing benefits is an important factor to fishermen and processors. There are two options *of* marketing Alaska's wild salmon.

- First, generic marketing will benefit all salmon fishermen in Alaska.

- Marketing strategies like branding can help promote higher value conscious consumers in niche markets.

- The two options raise the question of our overall marketing focus. Should we concentrate on generic markets or niche markets?

- The T &HCC position is that there is value to marketing to high end niche markets, but, not at the expense of surrendering our current market share in existing markets.

- Our position is that the Alaska salmon industry needs to go head-to-head with our competitors in all existing markets. Do we do this with a goal of attempting to achieve the highest prices or market share?

- In the short term fishermen, processors and the distribution channels need to stabilize price.
- In the long term it is their best interest to gain market share.
- We can gain market share in the long term by re-energizing the salmon industry to meet consumer demands in all of our markets. Like oth r industries there are market disciplines that we need to adopt to become market leaders in the seafood industry.
- Marketing and branding for their own sake may have worked when wild salmon dominated the market, but, now that consumers have substitute products our marketing and branding must be accomplished with goals of controlling target markets in a manner that we can measure success through market share calculations.

The Solution isn't in cutting out Fishermen and Harvesting of Wild Salmon

By now it should be obvious that it is old industry and State politics to say there are too many fishermen chasing to few fish in Alaska as the reason our salmon prices are low and we need to cut out fishermen with buy-out programs, and through the use of other industry cut back schemes. The fact is:

- The State of Alaska and salmon industry has been asleep at the wheel of an outdated salmon industry and it is easier to take the quick way out by pointing blame instead of addressing the industry in a systematic manner that will result in the common good from fishermen to consumer.
- Along with re-engineering the salmon industry to modern consumers we should be doing everything to promote growth and development of the fishery through our salmon enhancement programs. This will allow entry by new fishermen and processors to our communities' economic base and not eliminate them through the Salmon Task Force process.

Conclusion

We have set the ground rules for establishing a Long Term Vision for the Alaska wild salmon industry. We can succeed in regaining our market share of current markets.

- We have strengths that we can use to our advantage.
- We have specific volumes of salmon coming to our beaches every year that we can manage on a sustained yield basis and enhance with applicable salmon enhancement programs.
- We have existing fisheries regulations that can be reviewed to improve our salmon markets.
- We have fishermen with experience in making a living from our fisheries resources.

- We have processors with existing assets that can be modernized to accommodate 21st century consumers.
- We have distribution channels that are familiar with our wild salmon products.
- We have consumers that are familiar with the high value of our salmon products.

Our Weaknesses

We have a number of weaknesses in the salmon industry that can be addressed:

- Overall the one weakness is an outdated salmon industry system from fishermen to consumer.
- Through many of the suggestions and comments from others we can turn this industry around to a level of competitiveness where we have a share of the world salmon markets that will support a sustained fishery in Alaska.

Threats to our Salmon Industry

There are a number of threats to our wild salmon products that we need to address;

- Farmed salmon growth and development can be forecasted and matched with wild salmon products.
- Substitute products need to be matched head on in markets where we are challenged.
- Self-complacency and lack of vigilance in implementing necessary changes in the Alaska salmon industry to meet consumer demands in all markets.
- The largest threat to the Alaska salmon industry is biotechnology and authorized production of genetically engineered salmon that can be grown at an accelerated rate.
- Biotechnology is prone to use by the farmed salmon industry and should be addressed by the fishing industry in Alaska and by the Salmon Task Force. No genetically produced food products should be allowed in Alaskan markets.

We believe that the comments and recommendations in this document warrant action by the Alaska Salmon Task Force. With these and similar recommendations from other parties in the industry it is obvious this current Task Force can only be the first step in an ongoing process. The State and Industry will need to adopt permanent systems and organizations to address the modernization of our wild salmon industry.

We can recapture our wild salmon markets and develop plans to sustain our market shares. Our goal should be to have these systems in place by a given date and always operating to keep ahead of the consumer demands of the day in all of our markets.

2.

Central Council
Tlingit and Haida
Indian Tribes of Alaska

CENTRAL COUNCIL
tlingit and haida indian tribes of alaska
ANDREW P. HOPE BUILDING
320 West Willoughby Avenue • Suite 300
Juneau, Alaska 99801-1726

Jan 15, 2003

Senator Ben Stevens
State Capitol, Room 119
Juneau, AK 99801-1182

Re: **Legislative Salmon Task Force Recommendations**

Dear Senator Stevens:

We wanted to take a minute to submit our Analysis and Recommendations regarding the recent Legislative Salmon Task Force Recommendations. You will see from the attached summary document that our research shows that the Salmon Task Force Recommendations fall short in numerous areas. The commercial fishery statistics show a number of things;

- That the Alaska salmon industry is not overcapitalized as defined by national programs which manage fisheries. Overcapitalized means, "too many fishermen, spending too much money, chasing too few fish." This is not the case in Alaska; we have an over-supply and marketing situation.
- That the salmon industry is very healthy and already managed by "Limited Rights systems" via Limited Entry Programs. Statistics show a decline in value and permits in rural Alaska that can be stabilized and enhanced with Salmon Community Development Quota programs, not buy-backs, permit-stacking, and fractionalized permits.
- The facts show that the Alaska Seafood Marketing Institute has National and International marketing experience and can successfully take on a greater role of advertising and marketing, with more funds and structure changes.
- Most importantly, the villages of S.E. Alaska and other coastal village's economy are highly dependent upon having a healthy fishing industry. The State should be looking at ways to **Add-back** permits to the S.E. Alaska villages under a CDQ system.

We appreciate the time you and the Task Force take to consider backing away from the recommendations that continue to reduce and take away from village economies and fishermen, and focus on ways to add-back and enhance the fisheries in our S.E. Alaska communities.

If you have any questions please call me at 463-7121 or e-mail gjackson@ccthita.org and I will be available to arrange a meeting or conference with you or your staff.

Sincerely,

Gordon Jackson, Manager
Business & Economic Development

Attach/ Summary of CCTHITA Task Force Analysis and Comment

Cc/ Honorable Governor Frank Murkowski, State of Alaska
Honorable Senator Ted Stevens, State of Alaska
Honorable Senator Lisa Murkowski, State of Alaska
Honorable Representative Don Young, State of Alaska
Legislative Salmon Task Force Committee members
Mr. Edward K. Thomas, President, CCTHITA
S.E. Alaska Mayors
S.E. Alaska Inter-Tribal Fish & Wildlife Commission
CCTHITA Delegates
S.E. Alaska Village Corporations
S.E. Alaska Tribal Organizations
Sealaska Corporation
T&H Housing Authority
T&H Electrical Authority
SEARHC

3.

Central Council
Tlingit and Haida
Indian Tribes of Alaska

CENTRAL COUNCIL
tlingit and haida indian tribes of alaska
ANDREW P. HOPE BUILDING
320 West Willoughby Avenue • Suite 300
Juneau, Alaska 99801-1726

Oct 22, 2003

Senator Ben Stevens
State Capitol, Room 119
Juneau, AK 99801-1182

RE: Legislative Salmon Task Force Fishing Permit Proposals for Southeast Alaska

Dear Senator Stevens;

As you know the Central Council Business and Economic Development Department has been participating extensively through out the past 26 years in trying to help maintain the rural Southeast Alaska commercial fisheries economy. Commercial fishing is really the safety net economy that provides an income base for the village governments; jobs and income for residents. Commercial fishing in our Southeast villages is still the major source of economy to help reduce unemployment and the poverty rate in many of our villages such as Angoon; Craig; Kake; Klawock; Klukwan; Haines; Hoonah; Hydaburg; Pelican; Klawock; Wrangell and Yakutat. Commercial fishing is still a way of life for residents of these communities and our focus should be on stabilizing current commercial infrastructure in these communities, not working to eliminate them.

There are a number of issues and legislative bills which your task force is considering that we would like to address with you. We have submitted similar comments in the past and feel that this is so important that we offer the suggestions again;

1. The Bill which calls for buybacks and cutbacks on limited entry commercial fishing permits is not an acceptable legal and economic option for our rural Southeast Alaska villages.

2. In reviewing the commercial fishing limited entry program since 1974 to 2002 every major fishery such as the Yakutat set-net; S.E. Purse Seine; Salmon drift net; hand troll permits; and Salmon power troll has lost permits. In each fishery the residents of Alaska have lost more permits than non-residents, and in the area of hand troll permits there was a 60% increase in non-resident permits. (See Attachment I.)

3. Our research shows that the Legislative Salmon Task Force has not clearly and correctly defined "over-capitalization" of the industry which is being used as justification to support cutback/buyback commercial fishing permits in Alaska. In a simple and traditional sense, 'over-capitalization" can be defined as too large of

a commercial fishing industry, spending too much money, catching and processing too few fish in a demand market.

4. Our research shows the opposite of "over-capitalization" taking place in Alaska. Overall, we have a smaller commercial fishing industry catching and processing more fish or an equal number of fish poundage since 1989 when all fisheries showed large increases in total catch. (See Attachment II.)

5. Our research shows that even during high average per unit earnings of years 1985; 1986; 1988; and 1989 when we had close to the number of 1974 permits fishing for all fisheries, average and below average total pounds landed, average and below average prices per pound fish prices, all four of these years had very high average per unit earnings. (See Attachment II.)

6. What the facts of number five tell us is that there are outside forces which affect the value of our fisheries which we have ignored and they have nothing to do with the number of fishing permits in all of our current Southeast Alaska fisheries.

    a. The first area is we believe that the State has not focused or invested properly in helping to market our seafood products.
    b. The second area is that our seafood processors have not kept abreast of market technology and market demands and standards for our products.
    c. The third area is that we all have not addressed the threat of our competitors in areas of farmed salmon and alternative protein products.
    d. The final outside area is that we have not learned to work as partners with the marketing channels of our seafood products such as chain stores, and large whole sale stores which are also competing in a competitive on-demand market to survive.

Conclusion:

There are two opportunities that we request that the State pursue;

1. The first area is to assist and protect the current fishermen and fishing infrastructure in the rural communities of S.E. Alaska. This can easily be done by assisting individual fishermen with upgrading their boats and equipment to meet high quality product and safety standards of the seafood industry.
2. We believe that the State can assist rural Alaska fish plants which are State resident corporations, by helping to upgrade their equipment and technology to meet high quality market standards.
3. We believe the opposite of cut backs and buy backs should take place for the rural communities of which we have listed above. Our research has demonstrated that the fisheries can sustain adding back permits to our rural Southeast Alaska villages. We have attached a proposal to add back commercial fishing permits to the rural Southeast Alaska villages and the benefits that will accrue to the affected Southeast villages. (See attachment III.)

If you have questions please contact me at 463-7121 or e-mail, gjackson@ccthita.org

Sincerely,

Gordon Jackson

Gordon Jackson, Manager
Business and Economic Development

Cc/ All Alaska Legislators
Honorable Governor Frank Murkowski
Mr. Edward K. Thomas, President, CCTHITA
Mr. Edgar Blatchford, Commissioner DCED
Mr. Greg O'Claray, Commissioner, Labor and Workforce Development
Mr. Kevin Duffy, Commissioner ADF&G
Mayors, Affected Southeast Villages

Attachments/ Supporting Documentation

Attachment I.
Southeast Village Permit Loss Analysis

Type Permit	Year	Total Permits	Total Resident Permits	Total Non-Resident	
Yakutat Set Net	1974	253	228	25	
Yakutat Set Net	2002	173	131	36	
Permit Loss/Gain		-120	-97	11	
Percent Loss/Gain		-47%	-43%	44%	
S.E. Purse Seine	1974	459	216	243	
S.E. Purse Seine	2002	420	183	232	
Permit Loss/Gain		-39	-33	-11	
Percent Loss/Gain		-8.00%	-15%	-5%	
Salmon Drift Net	1974	858	492	363	
Salmon Drift Net	2002	483	358	124	
Permit Loss/Gain		-375	-134	-239	
Percent Loss/Gain		-44%	-27%	-66%	
Salmon Hand troll	1974	2,099	2,042	57	
Salmon Hand troll	2002	2,163	1,100	148	
Permit Loss/Gain		64	-942	91	
Percent Loss/Gain		3%	-46%	60%	
Salmon Power trol	1974	1537	1,159	378	
Salmon Power trol	2002	973	773	192	
Permit Loss/Gain		564	386	186	
Percent Loss/ Gain		-37%	-33%	-49%	

Attachment III.

Community	Add set net	Add hand troll	Add Purse seine	Add Drift net	Add Power troll	Total permit & total average per unit earnings value
Angoon		5	5	5	5	$1,371,480.00
Craig		5	5	5	5	$1,371,480.00
Haines		5	5	5	5	$1,371,480.00
Hoonah		5	5	5	5	$1,371,480.00
Hydaburg		5	5		5	$1,077, 850.00
Kake		5	5	5	5	$1,371,480.00
Kasaan		5			5	$215,150.00
Ketchikan		5	5	5	5	$1,371,480.00
Klawock		5	5		5	$1,077, 850.00
Klukwan		5	5	5	5	$1,371,480.00
Petersburg		5	5	5	5	$1,371,480.00
Saxman		5		5	5	$508,780.00
Sitka		5	5	5	5	$1,371,480.00
Skagway		5		5	5	$508,780.00
Wrangell		5	5	5	5	$1,371,480.00
Yakutat	5	5			5	$269,595.00

4.

Central Council
Tlingit and Haida
Indian Tribes of Alaska

CENTRAL COUNCIL
tlingit and haida indian tribes of alaska
ANDREW P. HOPE BUILDING
320 West Willoughby Avenue • Suite 300
Juneau, Alaska 99801-1726

April 20, 2004

Senator Kim Elton
State Capitol, Room 115
Juneau, Alaska 99801

Dear Senator Elton:

On behalf of Central Council Tlingit & Haida Indian Tribes of Alaska and our Tribal members we wanted to take this time to submit to you an important opportunity. I recently became aware of the fact that our State legislators were seriously looking at a State Permit Buy-back program. **This is a serious mistake without first doing an intense analysis on how this will affect our rural villages and fishermen.** I am attaching a proposal on how the State and CCTHITA can work together to address the loss of commercial fishing permits among our Tribal members and an outflow of permits from Rural Alaska. This loss and outflow of Native permits has caused serious economic, social, and cultural harm to our people.

Based upon our back ground knowledge of this issue we are submitting a proposal to your office. With this proposal you will see that CCTHITA and the State will complete an Analysis of How the Alaska 1973 Limited Entry Laws has impacted our Native people and villages, and how this State Permit buy-back program can have very negative impacts in rural Alaska. This is an important opportunity for CCTHITA and the State to collaborate on helping our Tribal members and fishermen regain an economic foothold in the area of commercial fisheries in rural Alaska. We hope you are able to help move our proposal through the system and amend State Legislation which does not address our concerns..

We are attaching a copy of our Proposal for your consideration. Please call me at 463-7341 for any additional questions.

Sincerely,

Don Bremner, Staff
Business & Economic Development

Attachment/ CCTHITA Limited Entry and State Permit Buy-back proposal Proposal

Cc/ Senator Ben Stevens, State of Alaska
Gordon Jackson, Manager
Business and Economic Development

Central Council Tlingit & Haida Indian Tribes of Alaska

How Alaska's Limited Entry Law of 1973
&
The Commercial Fisheries Entry Commission Limited Entry Programs have harmed the Native People &Villages of Alaska
&
Proposal to Not Implement any Permit Buy-Back programs without first working with S.E. Alaska Villages

By: Don Bremner, Staff
Business and Economic Development
April 20, 2004

Findings:

"In 1973 the Alaska State Legislature enacted Alaska's Limited Entry Law (AS 16.43). The law established the Commercial Fisheries Entry Commission (CFEC) and charged it with administering the new program for regulating entry into the State's commercial fisheries. Limited entry was implemented in most of the State's salmon fisheries in 1974, and by the end of 1998 limited entry permits had been issued in a total of 56 commercial fisheries, 26 salmon fisheries, 16 herring fisheries, 8 crab fisheries, 5 sablefish fisheries, and 1 shrimp fishery." (Executive summary: Changes in the Distribution of Alaska's Commercial Fisheries Entry Permits, 1975-1980)

CCTHITA has heard from Native people, fishermen, businesses, and village governments on how the Limited Entry Laws has negatively affected their lives economically, socially, and culturally. Most recently at economic summits in Angoon, Hoonah, Prince of Wales and at a Salmon Summit in Juneau Native people testified about how the Limited entry Laws caused them and their communities harm. There were numerous testimonies about how the economy, social and cultural life use to be when everyone in the community was able to fish and make a living. There was testimony about the number of fishermen that use to support the village economy prior to the 1973 Limited entry Law. Based upon the claims of economic, social, and cultural harm caused by the Limited Entry program to the Native people, and villages of Alaska CCTHITA is submitting the following proposal:

1. The State develops a partnership with the Central Council Business and Economic Development Department in researching and analyzing the Native claims of harm done by the State Limited Entry Laws and of Buy-back permit programs.

2. Central Council Tlingit & Haida Indian Tribes of Alaska will file for Grant funds to assist the research and analysis.

3. The CCTHITA Business & Economic Development Department will be the lead Department in working State in working with the Native villages, people, and affected businesses in each community.

4. CCTHITA will file official reports with the State of Alaska and to its tribal members on findings of this proposal.

5. The CCTHITA goal will be to have a final report completed within a six month time period from the time grant funds are received.

CCTHITA Grant Implementation Plan:

The final report will be a professional document that will reflect an impact analysis of the village economy, social, and cultural life of the Native people before and after the 1973 Limited entry law was passed, and of any State permit Buy back programs being proposed. To complete this assignment CCTHITA will need and activate the following:

1. Complete and submit a project budget and scope of work document which includes personnel, equipment, travel, recordings, phone, fax, and professional contractors.

2. Work with a professional contractor to complete the analysis and file an official report.

3. The contractor will travel to the affected Southeast Alaska communities of Yakutat, Angoon, Kake, Hoonah, Klawock, Klukwan, Hydaburg, Pelican, Juneau, Sitka, and "spot communities" of the Kodiak and Bristol Bay region.

4. The contractor will hold public meetings in each village, take written and oral testimony, and record interviews with audio and DVD recorders.

5. The contractor will do a complete research and analysis of Alaska Territorial, State, and federal agency documents to show participation of Native fishermen prior to the 1973 Limited Entry Law, and after the law was passed, including estimates of impacts of any current State Proposed Buy-back programs.

A Successful Document will Show:

There are a number of important findings that a successful analysis will achieve:

1. The document will be a testimony of the Native people, villages, and fishermen affected by the Limited Entry Law and Permit buy-back programs.

2. The analysis will show historical affects in the areas of economics, social, and cultural life before and after the Limited Entry law and proposed buy back programs.

3. The analysis will show the need for the State to address the issue in multi-ways such as helping to rebuild the village economies and develop partnerships with the Rural fishermen and Native Tribes of S.E. Alaska to address the findings.

4. The analysis will show the need for the State to address the issue of adding back permits to the affected villages under an agreed upon system in partnership with CCTHITA and other affected Tribes.

5. The analysis will show that what took place in the State Limited Entry Programs of the salmon, crab, herring, sablefish, and shrimp also took place in the halibut industry, and affects of current State and legislative proposed permit buy-back programs.

6. The analysis will show the need for the State of Alaska and Alaska Native tribes to work in partnership to address this valuable economic opportunity for our tribal members, fishermen, and villages.

Fact Sheet for: Senate Bill 315

Short Title: Entry Permit Buy-back Program

Summary:

- Adds language to current CFEC buyback statute to allow other funding sources to "front fund" an approved buyback plan.
- The remaining fishermen in the fishery will repay the "front funding" and reasonable administrative costs through an approved buyback program.
- Examples of "front-fund" sources are: state or federal appropriation or a private sector loan.

Benefits:

- Creates a mechanism for the state to fund and implement a buyback in an efficient manner.
- Provides for an immediate reduction of entry permits to the optimum number.

Background:

- The Joint Legislative Salmon Industry Task Force recommended several changes to existing laws in an attempt to make them achievable for the seafood industry. Senate Bill 315 will make the buyback statutes practicable for fisheries that choose to initiate a buyback plan, program, and fund.

UNITED FISHERMEN OF ALASKA

211 Fourth Street, Suite 110
Juneau, Alaska 99801-1172
(907) 586-2820
(907) 463-2545 Fax
E-Mail: ufa@ufa-fish.org
www.ufa-fish.org

March 11, 2004

Senator Ben Stevens
Alaska State Legislature
State Capitol (Mail Stop 3100)
Juneau, AK 99801-1182

Dear Senator Stevens,

United Fishermen of Alaska supports SB 315 relating to the administration of commercial fishing entry permit buy-back program. This bill modifies existing law governing buy-back programs by allowing the Commercial Fisheries Entry Commission to "front-fund" a buy-back program if an appropriation were received. The commission would then continue to collect funds through the designated rate of assessment in the buy-back program to repay the indebtedness.

United Fishermen of Alaska represents 32 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support SB 315 which will make the buy-back statute easier to administer by accepting grants or loans from other sources. Thank you for your time and consideration on this matter.

Sincerely,

Mark Vinsel

Mark Vinsel
Executive Director

Salmon Strategy Task Force Recommendations

Walter J. Hickel, Governor
Commissioner Glenn A. Olds, Chair

State of Alaska
Department of Commerce and
Economic Development
Division of Economic Development

JANUARY 24, 1992

INTRODUCTION

Governor Hickel appointed the Salmon Strategy Task Force on August 15, to investigate the reasons for the 1991 salmon crisis and to review options for industry stabilization and recovery.

Alaskans should be proud of the courage of the people and companies that started this industry years ago. The people and lifestyle of the salmon industry are a fundamental part of Alaska's history, culture and way of life.

Alaska has been the world's leading supplier of salmon. The state's salmon industry now faces strong competition from many other sources and its dominant role is threatened. Traditional markets are no longer dependent on Alaska for their needs.

The entire world is producing salmon at a record rate. For many years, Alaska's salmon industry enjoyed a market strategy based on allocating scarce resources among competing customers. In less than a decade the entire system has changed. Now the competition in both traditional and developing markets is intense, and it's likely to stay that way.

In order to compete, and indeed survive in this new environment, it is essential that all participants in the industry recognize and accept the reality of these competitive changes. The industry is facing a crisis of considerable magnitude, requiring decisive short term action and long term action to prevent the crisis from recurring.

The 1991 salmon season has forced us to recognize that the Alaska salmon industry is at a crossroads. As with many other industries in America, we must recognize that traditional business practices are no longer adequate in the face of global competition. Reevaluation and action are required.

The Salmon Strategy Task Force has made several immediate and long-term recommendations which should alleviate the immediate crisis, help stabilize the industry, and plot a course to regain our leadership role in the marketplace.

The effects of the decrease in salmon prices are profound, putting at risk state loan programs, community stability, and tax revenues to all levels of government. The seafood industry is the state's largest private sector employer, with the largest resident private sector payroll. The failure of the state and the industry to take decisive action will result in continued weakness in this economic sector and put increased demands and safety net programs.

These will not necessarily be easy changes to make. It will take a substantial commitment of time, hard work, and money. We ask that the Administration, the entire salmon industry and the Legislature work together to support the implementation of these recommendations.

Charge to the Task Force

Governor Hickel's charge was to develop a strategy to generate maximum economic return to Alaska fishermen, processors, and the state as a whole, consistent with wise use and conservation of the resource. The Task Force is to make specific recommendations to the seafood industry, the Administration and the Legislature.

The group was to focus on methods to maintain existing markets, develop alternative markets and product forms, promote secondary processing, develop necessary infrastructure, coordinate production and marketing strategies, improve salmon quality control, optimize fish tax policies and improve fish harvesting and processing efficiency. The Task Force also delineated existing salmon markets and collected and distributed information to assist fishermen and processing companies in reaching agreement.

Conditions requiring study

The major factors distressing the industry are greatly increased competition, high inventory levels, low prices, and projections of continuing high production levels. The runup in prices 1986-1988 followed by declining prices since have left many fishermen with debt loads they cannot support. The declining markets have hurt processors, exporters, and end users holding product in a declining market as well. These factors led to serious price disputes and charges of price fixing in some quarters as the 1991 season developed.

The market outlook for the 1992 season may improve somewhat for sockeye, but extremely high inventory levels remain for pinks. These species represent the vast majority of Alaska production value and volume. The early, very tentative prognosis from Fish and Game is for another big production year.

Inventory of issues

An initial questionnaire went out to 350 recipients of the Alaska Fish and Game weekly catch reports in mid July. This was followed by a second mailing of 125 in late July that added all Alaskan salmon fishing organizations, processors and legislators. The mailing solicited opinion on the issues the Task Force should address. Some 70 responses (a 15% response rate) were received. Staff collated the responses and summarized them. These responses were then categorized under nine headings for presentation to the Task Force.

Selection of Task Force

The Governor announced the membership of the Task Force on August 15. It includes broad representation from the salmon industry, appropriate state agencies, and the general public. The group provides a good cross section of the industry and policy makers in state government, while maintaining reasonable geographic balance and a practical size. The members are:

Honorable Richard Eliason of Sitka,
President of the Alaska Senate,
and a Southeast Alaska fisher;
Honorable Fred Zharoff of Kodiak,
Chairman of the Alaska Senate Rules
Committee and a Bristol Bay fisher;
Honorable Eugene Kubina* of Valdez,
Chairman of the House State Affairs
Committee;
Commissioner Glenn Olds,
Alaska Department of Commerce and
Economic Development;
Commissioner Carl Rosier*,
Alaska Department of Fish and Game;
Mr. Ed Crane*,
President of the Alaska Commercial
Fishing and Agriculture Bank;
Dr. Jerome Komisar,
President, University of Alaska;
Mr. Richard Lauber,
Vice President, Pacific Seafood
Processors Association;
Ms. Hazel Nelson*,
President, Becharof Corporation,
and Bristol Bay fisher;
Mr. Greg Seider*,
Executive Director, United Fishermen of
Alaska;
Ms. Sandra Tavanis*,
Co-owner, Sea Hawk Seafoods, Valdez;
Mr. Bob Van Brocklin,
Prince William Sound Aquaculture
Corporation; and
Mr. Robert Waldrop,
President of the Board, Alaska Seafood
Marketing Institute, and Vice President,
Silver Lining Seafoods, Ketchikan.

* Editorial Committee

Calendar of work

The Task Force met four times, August 29, October 7, November 1, and November 22. Agendas and summaries of the meeting minutes are contained in appendices to the full report.

At the first meeting, the Task Force selected which of the issues raised in the extensive mail-out solicitation to pursue. Five of the original nine survived; product and market development, reducing costs of production, getting reliable information, improving quality, and marketing salmon and ASMI's role. It also became clear there were several myths at work clouding the issues. Staff reworked the five issues passed by the Task Force in the first meeting into problem statements before the second meeting.

The second meeting started with presentations on various myths, including "everyone's making money but me," "it's all just a Japanese conspiracy," and "we should stick to business as usual, the customer just thinks they want something different.". The Japanese market, salmon prices, margins and costs at various points in the industry, and ASMI's mission were discussed. The Task Force made changes to the problem statements and staff followed up the second meeting with extensive interviews of Task Force members and other experts to lay out the facts and options available to address the problems. A sixth problem was isolated and addressed in this process, the need for strategic planning. The persons interviewed, the questions asked and the options identified are in the full report appendix.

The third meeting started with presentations of the interview results and options gathered. The interview results form the main body of the full report. The Task Force then ranked the options available at that time. Some options were dropped. Staff reworked the options into general, specific, and detailed lists, and prepared a draft outline for the report.

The fourth meeting consisted of preparing some new recommendations for immediate action, and reworking the options that passed muster at the third meeting into the recommendations that follow. Some items were dropped. An editorial committee was appointed to oversee production of the report (see footnote above), and a schedule established for completion of the report.

Recommendations

The Task Force recommendations take into account budget cycles and priorities. In many cases requiring state agency action, existing budgets are not adequate to perform the recommendations. Additional funding will be required, not reprogramming of existing budgets. The Task Force expects the relevant agencies to prepare the necessary budget information, and respectfully requests full and favorable consideration by the Administration and Legislature.

RECOMMENDATIONS FOR DEALING WITH THE IMMEDIATE CRISIS

1. The Alaska Seafood Marketing Institute (ASMI) should develop a budget for immediate funding to deal with the existing inventory surplus before the 1992 season and projected 1992 production. This must be implemented as soon as possible[1].

2. Processors and fishermen should initiate market discussions early. The Task Force recognizes that the market situation will be uncertain at that time, and that the risk involved will lead to low price suggestions from processors, but recommends early discussions to provide maximum information sharing and opportunity to reach agreement. The Department of Labor (DOL) should be prepared to bring in knowledgeable mediators if necessary.

3. The University of Alaska (U of A), Commerce and Economic Development (DCED), and Fish and Game (ADF&G), should initiate and/or support efforts to expose the broadest possible range of Alaska fishermen to credible and detailed information about recent and ongoing changes, including problems and opportunities, in the world markets for salmon.[3]

4. The DCED Division of Economic Development should review the processing capacity situation in Prince William Sound, taking into account the outcome of the 1991 season, and make preliminary findings available to the Governor (and the industry) as early as is practicable. The Task Force recognizes that the capacity problems that developed in Prince William Sound were the result of the fishery being late and very concentrated, and the fish being relatively dark and small.[4]

5. The DCED Division of Investments and Alaska Commercial Fishing and Agriculture Bank (CFAB) recognize the crisis caused by low prices and the effect this has on loan payments. The Task Force encourages them to actively seek out fishermen having problems and work with them on loan extensions and other measures to minimize foreclosures.[5]

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1. The immediate ASMI program should be geared to long-term domestic market growth. The Governor could include this amount in his budget request, including a request for exemption from procurement codes for this emergency funding. The Legislature could pass this supplemental funding out as soon as possible in the session. ASMI could reprogram funds to initiate the campaign as soon as possible, prior to release of the funds, consistent with prudent financial management.

3. Provide reasonably detailed but clearly written information on prices and markets for salmon for widespread distribution in the spring of 1992 and thereafter. The information could be updated in season. A goal should be to establish a clearer understanding of the effects of market conditions and dynamics on prices.

4. DCED could prepare a supplemental budget to cover the costs of doing the necessary surveys for the PWS capacity determination.

5. Reinstatement of state funding for the ABDC (Alaska Business Development Centers) program of outreach and business assistance in rural areas has been identified as an important component in dealing with financial hardship. This organization provides one-on-one assistance with loan workouts and dealing with the IRS that is not available elsewhere.

MID-RANGE RECOMMENDATIONS

General

1. The DCED, ADF&G, and Department of Labor (DOL) should consider promoting a closer and more trusting relationship among the interests involved in the issues concerning Alaska's salmon industry. This effort should be closely coordinated with other ongoing educational and consensus building efforts.[1]

Product and Market Development

2. The Alaska Science and Technology Foundation (in fisheries area), and the U of A's Fisheries Industrial Technology Center, and Marine Advisory Program should be encouraged to expand their efforts in salmon product and market development and to coordinate their efforts in providing technical assistance and research and development in salmon products through the Alaska Fisheries Development Foundation (AFDF).[2]

3. The DCED's ability to provide international marketing information and sales assistance should be expanded. The Department's Division of Economic Development and Office of International Trade should work closely with ASMI and the Alaska Center for International Business (ACIB) to reduce risk and costs to the private sector.[3]

4. The DCED, ASMI and the Marine Advisory Program's ability to assist domestic marketing should be expanded. The Department's Division of Economic Development work closely with ASMI to reduce risk and costs to the private sector.[4]

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1. In the consensus building efforts, the agencies could organize forums and/or participate in existing trade shows and conferences. The issues examined by the Salmon Strategy Task Force could be presented and discussed with the objective of developing a consensus about the direction the state should take in the future regarding the harvesting, management, promotion and marketing of Alaska's salmon.

2. AFDF has in place a proven industry board and ability to perform, but will require administrative funding to continue operations. Salmon industry representation on their board should be expanded.

3. Specific projects could include:

   - Work to reduce tariff barriers for Alaska seafood products overseas.
   - Encouragement to foreign reprocessors to purchase or joint venture value-added pro[illegible]on in Alaska.
   - Continuing investigation of new markets for salmon overseas where disposable income is high enough, and seafood is commonly eaten.

4. These entities could reduce risk and costs to the private sector of expanding domestic markets through:

   - Working with food service entities in Alaska and other states to promote sales and distribution of Alaska salmon products.
   - Providing start-up technical assistance to new ventures.

Quality

5. The Department of Fish and Game should reexamine management practices with the goal of obtaining the highest quality pack possible without harming the stocks.[5]

6. The Department of Fish and Game should conduct a comprehensive study in Southeast Alaska and Prince William Sound, with the cooperation of fishermen and processors, to determine the degree of risk managers should take in managing for economic efficiency and fish quality. The goal would be to identify the optimum locations for harvest.[6]

7. Industry and the Department of Fish and Game should cooperate on a program to educate fisheries managers, fishermen and industry operators on the physiological changes that occur in salmon (and hence its marketability) to encourage management that provides for the optimum use of the resource.[7]

8. Hatcheries should conduct research to determine the cause for variations in sexual maturity and other quality factors for stocks returning to hatcheries. Based on the research, hatcheries should modify their stocks and practices to optimize quality.

Marketing and ASMI's Role

9. ASMI, the FITC and the Marine Advisory Program (U of A) should expand educational programs on fish handling, cleaning, chilling, and processing for virtually all parts of the industry. Such efforts should focus on providing hands-on training from the fishing boat to the market, and on meeting the needs of the consumer for quality seafood. The effects of quality handling on the ability to market the end product should be emphasized.

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5. The reexamination of management practices could include changes in the length of openings and the timing of fisheries to optimize salmon quality. The Task Force recognizes that Fish and Game may need statutory and regulatory changes to incorporate such considerations in management decisions.

6. A controlled set of experiments to determine the optimum points of harvest for top quality could include:

   a. testing the condition of fish to determine rates of deterioration in terminal harvest and outer areas, throughout the duration of the run; and

   b. identifying the optimum location which will provide the highest quality of salmon with an acceptable risk to the wild stocks.

7. A study to examine the effects of sexual maturity on finished product quality could include the following:

   a. samples in each of the categories in ASMI's Color Guide and hatchery broodstock would be collected;

   b. portions of each category would be processed at least as headed and gutted, filleted and canned products; and

   c. the end products would then be used in a workshop setting to educate managers on the various aspects of salmon quality.

   The Task Force recognizes that a similar program budgeted at $25,000 was considered and set aside by the ASMI board, and that it may be possible to achieve the same ends using commercially-processed products. ADF&G should prepare a budget item if necessary.

10. The Department of Commerce and Economic Development should initiate and/or encourage efforts to expose all salmon fishermen to organized, accurate and credible data concerning the salmon industry and markets in sufficient form and detail to permit fishermen's consideration of a national salmon marketing council chartered by the U. S. Secretary of Commerce under the Federal Fish and Seafood Promotion Act of 1986.[10]

LONG-TERM RECOMMENDATIONS

GENERAL GOAL

The state needs to develop a strategic plan for long term development of the salmon (seafood) resource, using recommendations of this task force as a starting point. This should focus on strengthening the support structure and sustainability of the industry. The goal would be a more rational and efficient system which is less vulnerable to market, production, and financial fluctuations. This would ensure an integrated and uniform state approach to the fishing industry.

OBJECTIVES:

- review and evaluate the institutions and relationships developed in the industry with an eye toward improving competitiveness and economic return to Alaska residents.
- bring together agencies and functions to affect a rational, consistent and sustainable program linking production, harvesting, processing, marketing and financing.
- determine the proper roles for the public and private components of the industry, integrating regulatory and developmental activities.

ACTION ITEMS

General

1. The Department of Commerce and Economic Development, in cooperation with other state agencies and the salmon industry, should organize a group with broad experience and understanding, in aggregate, of food and commodities industries, to:

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10. The Federal Fish and Seafood Promotion Act of 1986 provides that species-specific councils (roughly parallel to the National Beef Council, etc.) may be formed only after a rigorous referendum process which must include all salmon harvesters and all primary processors or harvest purchasers and may include other industry participants. If properly organized and chartered, a "National Salmon Council" would have the power to assess the industry participants for funds to be used for salmon promotion and marketing, product research, consumer education, etc. It would also have the power to develop and offer, for Department of Commerce and Economic Development approval, salmon quality standards.

a. review the functional and procedural workings of the Alaska seafood industry;
b. identify areas of inefficiency, counter-productivity and resource waste.
c. review and evaluate research and development capabilities.
d. recommend what state resources, including statutes, regulations, prestige, etc., can and should be applied to address those areas.

Fish Production

2. DCED, ADF&G, and ASMI should develop an integrated production and marketing strategy, which would:

   a. recognize marketability of the fish as an important management goal.
   b. recognize that price will be set by overall supply and demand, including the production of farmed salmon.
   c. coordinate production with wider economic goals, including processing, product development, and markets, based on dependable information and planning.
   d. better coordinate wild and hatchery production, regionally and by species and market.

Harvesting/Processing

3. The Commercial Fisheries Entry Commission, DCED, and DF&G, should develop fishery management and regulatory measures aimed at reducing operating costs, more efficiently utilizing present investments, and promoting a rational sustainable industry. Investigate ways to retain permits in Alaska and rural areas in particular, provide greater stability and enhanced revenues to resident fishermen, and increased shoreside investment consistent with sound financial standards, through:

   a. reexamination of loan policies and permit use limitations.
   b. reexamination of Alaska's limited entry system.

4. To widen options for Alaskan fishermen, DCED, in cooperation with other state agencies and the industry should consider promoting Alaskan controlled joint venture processing developments linking present investors and industry participants with new technologies and capital, and Pacific Rim and lower 48 markets. Give special attention to rural communities dependent on the salmon resource, smaller plants, local consumption and market needs, infrastructure needs, and current economic development plans.

Marketing

5. DCED should contract a major marketing research firm with proven credentials in food marketing to develop and analyze the "facts" related to salmon market trends, opportunities and weaknesses in major and potential markets. The group should also evaluate the state and industry's marketing efforts, including consideration of changes in the ASMI statute or operations, to permit, if possible, a more effective approach to marketing Alaska seafood.[5]

6. The Governor and Legislature should consider funding ASMI's $10 million per year proposal for an intensive 5 year domestic marketing campaign. The goal is to raise domestic consumption of salmon from 1 to 1.5 pounds per person annually.

7. DCED, in cooperation with ASMI and DEC, should conduct a study to find the most cost effective ways to improve consumer confidence in Alaska seafood products. The Task Force recognizes that the entire seafood industry must improve the inherent quality of the salmon it processes, the freshness and workmanship of the product, and the consistency of grading to remain competitive, particularly when competing with farmed salmon.[7]

Finance/Other

8. DCED, in cooperation with other agencies and the industry, should readdress the issue of infrastructure including but not limited to improving quality, providing cold storage capacity, and promoting value added production.

9. OMB, in cooperation with state agencies and the industry, should reexamine the policy and implementation of fisheries taxes, including the corporate income and marine fuels taxes. The State must first decide what it wishes to accomplish by taxation. While this is nominally raising revenues, any tax distorts the market in some way, and a review of the current tax structure and various proposed alternatives is in order. Of particular interest is whether targeted tax credits for research and development expenditures is feasible.

Reducing Costs and Regulatory Burdens

1. The Departments of Fish and Game and Revenue should consider combining the appropriate processor annual report forms to simplify reporting requirements for the industry. This should be done at an agency level with the agencies sharing information from each form or integrating them, and may require statutory changes.

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5. The efforts should take into account what's already been done (Salmon 2000) and focus on those areas outside ASMI's assigned and traditional role, including new product and market development. The results must be produced in a form which will permit evaluation and initiation of strategies to further enhance and stabilize markets.

7. A great deal of the input the Task Force received identified the lack of consistency in Alaska salmon products as a major marketing problem. Some Alaska product has been described as "low quality" compared to the competition. As Alaska's products become better identified in the marketplace, the Task Force recognizes that "Alaska brand" seafood must be of "good" quality, and meet the customers' expectations if customer satisfaction is to be achieved and advertising dollars well spent. Exactly how to determine those inherent quality standards, and how to ensure that the customer consistently gets the product they have purchased and expect could not be reconciled. The industry is divided on how large a role the state should play in determining quality, ranging from mandatory grading standards to no standards beyond wholesomeness.

2. The Department of Commerce and Economic Development, in cooperation with other affected agencies and the industry, should investigate ways to assist small operators in meeting the myriad regulatory requirements of various agencies. This might range from exempting processors under a specified size from filing certain forms to providing a central clearinghouse for permitting and filing information, technical advisory services and special loans for equipment such as computers and computer software.

3. The relevant state agencies should, in consultation with the Limited Entry Commission, collect child support payments from permit holders at the time of yearly permit renewal. Permit holders will be motivated to pay this fee and it will not unfairly burden processors.

4. The Departments of Revenue and Labor respectively, should relieve the burden of prepayment of the Fishery Business Tax and provision of Labor bond for companies with proven payment records and sufficient assets.

CRS Report for Congress

Overcapitalization in the U.S. Commercial Fishing Industry[1]

Eugene H. Buck

Senior Analyst in Natural Resources Policy

Environment and Natural Resources Policy Division

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SUMMARY

Living marine resources -- fish and shellfish -- are among the economically dominant features of the world's oceans as well as vital sources of protein for the world's people. However, the sustainability of these essential resources is at risk. As a result of increased demands for fish products and expansion of fishing fleets, many traditional fisheries around the world are now depleted.

As with many nations, U.S. marine fisheries managers have struggled to maximize harvests while maintaining productive stocks. Early attempts at management were compromised by largely unregulated foreign and domestic fleets. By 1976, the overexploitation of several stocks in offshore U.S. waters led to the passage of the Magnuson Fishery Conservation and Management Act (MFCMA), with the prevention of overfishing acknowledged as the first of the Act's seven national standards for new fishery management plans.

Since 1976, increases of 40 percent in the number of fishing vessels and 60 percent in the number of fishermen employed in commercial fisheries have yielded an increase of 50 percent in catches. Such growth, largely attributable to higher levels of consumer demand, government encouragement and assistance, and technological advances, has given U.S. fishermen continued incentive to further expand their capacity to fish. Capital invested in this expansion, however, has not yielded the anticipated returns. By 1993, 65 of a total 231 U.S. marine fish stocks were classified as overfished with the livelihood of the Nation's fishermen becoming as threatened as the fish they seek. With too many fishermen vying for too few fish, the U.S. commercial fishing industry is becoming as overcapitalized as the resource is overfished.

Scientists, managers, and industry experts have begun re-evaluating traditional models and techniques for managing fishery resources. Under closest scrutiny is the traditional open access approach to fishery resource use. Some critics insist that, in the absence of some effective form of property rights, marine fish stocks will continue to diminish. A management regime that addresses open access

concerns appears warranted, as does an overall reduction in fishing capacity. Nevertheless, significant questions remain. In particular, how and in what form should access be addressed? In what sector(s) and by what means ought reductions in capital invested in the commercial fishing industry occur? And, what is the role of the Federal Government in such proceedings? These questions and several others await careful evaluation by scientists, conservationists, industry experts, and lawmakers alike, while the fates of fishermen and the fish they depend upon hang in the balance.

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INTRODUCTION

Since the 1600s, the principle of freedom of the seas has dominated use of the oceans and their resources. (2) Operating within this open access system, the growth of commercial fishing has led to declines in fish stocks compounded by excesses in capital investments. This growth is largely uncontrolled by current management systems and is fostered by continued enhancement of fishing methods as well as by government encouragement and assistance.

In some regions of the world, declines of commercially important fish stocks have become so severe that the welfare of coastal communities and regions, as well as that of certain ethnic groups, has become threatened. Perhaps the most d[illegible]atic depletions of fish stocks have been in the western Atlantic, where commercially viable quantities of cod have all but vanished from the fabled Grand Banks, triggering layoffs reportedly involving more than 30,000 people in the fishing communities of Eastern Canada. So serious have been the declines that in May 1994, in an unprecedented unilateral move, Canada granted itself authority to seize vessels found breaking fishery conservation rules within international waters of the Northwest Atlantic Fisheries Organization (NAFO) regulatory area, where conventional national maritime laws do not extend. Such action not only indicates the severity of depletion of the oceans' resources, but also the absence of an effective international fisheries management system.

Managers of U.S. marine fisheries are struggling to "reverse the overfishing trends, improve economic performance, and strengthen the conservation of protected species," according to the National Marine Fisheries Service (NMFS). (3) The enactment of the Fishery Conservation and Management Act in 1976 (4) reduced foreign overharvesting of marine fish in U.S. waters. But in some areas, domestic overfishing replaced the foreign problem. Increases of 40 percent in the number of fishing vessels and 60 percent in the number of fishermen employed in commercial fisheries have resulted in a 50 percent increase in catch since 1976. (5) Such increases have been attributed to increases in consumer demand, government encouragement and assistance, and technological advances. (6) Capital invested for this expansion, though, has not led to the anticipated returns. With too many fishermen vying for too few fish, the U.S. marine industry has become as overcapitalized as it is overfished.

This report provides background describing the current situation faced by fishery managers and policymakers. As such, this report provides a basic framework for considering possible amendments to the MFCMA and other legislation that could affect the health of the industry and the welfare of the resource.

A GLOBAL DILEMMA

Only a generation ago, the supply of fish available from the world's oceans seemed plentiful. With advances in fishermen's ability to catch, preserve, transport, and sell products of ocean fishing, the wealth from ocean resources appeared vast. Millions of fish were hauled from the depths while fleets of trawlers and purse-seiners rapidly expanded and modernized. Worldwide commercial landings of fish nearly quintupled from 1950 to 1989, from 20 million metric tons to nearly 100 million. (7)

Rapid growth continued until the Peruvian anchoveta fishery collapsed in the early 1970s. After that setback, with some minor fluctuations, harvests continued to grow through the 1970s. By the end of that decade, commercial fishing fleets had become larger, while the abundance of major stocks and the catch per unit of fishing effort declined. According to the United Nations Food and Agriculture Organization (FAO), growth of global fish harvests slowed by the latter half of the 1970s. At the onset of the 1980s, commercial fishing fleets had become so large and efficient that fish abundance and average catch per day for major stocks declined to a level that threatened stock reproduction and was unprofitable without subsidies. FAO estimates that combined global commercial fishing fleets at that time cost taxpayers more than $50 billion annually in direct and indirect subsidies. During the 1980s, world fish harvest increased slowly, with a peak harvest of nearly 100 million tons in 1989.

In 1990, for the first time since FAO began conducting annual assessments, catch declined (approximately 3 percent), and world harvest fell below 97 million tons. Recently released FAO figures show stable world harvest for 1991 and 1992. (8) Although overall catch has remained constant in recent years, the increased landings of low-value species (e.g., anchoveta, jack mackerel, and pilchards) used for fishmeal have masked the decline of more commercially valuable species. Species whose catches have been declining are, for the most part, high-valued.

Concerned by the apparent declines in world fisheries, the United Nations convened an international Conference on Straddling Fish Stocks and Highly Migratory Fish Stocks, with the first session in July 1993. The conference represented the first organized effort to regulate high-seas fishing since the United Nations Convention on the Law of the Sea was opened for signature in 1982. Scientists, industry experts, and government officials agreed upon evidence which linked overfishing and habitat destruction to declines in marine fish populations. FAO reported that, in some cases, heavily fished species were not only reaching commercial extinction, but were threatened with biological extinction. FAO asserted that the maximum sustainable yield for the world's fisheries had been surpassed, and

showed that 13 of the 17 major global fisheries were depleted or in serious decline. (9)

FAO officials at the 1993 U.N. Conference underscored the paradoxical economics of global overfishing by releasing figures showing that the cost of operating the world's fishing vessels in 1989 was $92 billion, while their catch was worth only $72 billion. Admittedly, the accuracy of such figures remains uncertain, due to the difficulty of determining the size of the world's fleet; because there is no formal methodology by which to assess vessel "strength" (as a function of actual size and efficiency), an exact figure indicating the size of the world fleet and the magnitude of its impact does not exist.

The economic effect of overfishing and resultant higher consumer prices, in response to supply shortages, have led to shifts in both production and diet. The problem, as concluded by FAO officials, is worldwide, with substantial implications for the economic stability and future food production of the countries dependent on fishing. Because of rising costs and prices, more fish enter the commercial market, but are less available to low-income consumers and subsistence cultures. Once considered the poor person's protein, fish have become expensive -- even for consumers in industrial countries. In poorer countries, the export of seafood may help balance trade deficits, but it also may mean less food at home. This is especially a concern in those countries where diets lack protein and where traditionally fishermen have fed their families and supported their communities through the ages. In developing countries, where this diet pattern exists (the poorest two-thirds of the world's people), 40 percent of dietary protein comes from fish. Worldwide, fish and other marine products account for 16 percent of animal protein consumption -- more than either pork or beef -- and 5.6 percent of total protein intake. (10)

If product demand were stable and fish stocks underutilized, one would have expected the dramatic improvements in fishing technology over the last 40 years to reduce fish prices as supply increased. Yet, faced with increasing competition for a declining resource, technological capitalization within the industry has not alleviated supply shortages. Thus, increasing demands by a growing population have raised prices. However, technological capitalization, to maintain competitiveness in the face of resource scarcity, has not been matched by comparable increases in catch value, and subsidies have become necessary. The availability of subsidies has fueled further capitalization as fishermen searched for some competitive advantage. The United States has not been immune to this dilemma. As one of the world's major fishing nations, the United States claims one of the most heavily capitalized and industrialized fishing fleets in the world today.

THE U.S. DILEMMA

Since the early 1970s, fish products have become increasingly popular in the American diet. New items, including fast-food and convenience products, have been widely promoted, health experts have testified to the nutritional benefits of fish, farmers have found fish protein to be an excellent additive to livestock feeds, and improvements in food technology have allowed fish to be more widely distributed with better quality, all making seafood more appealing than ever before. Demand for seafood has provided substantial incentive for new entrants into the fishing industry.

Under the prevailing open access regime, many U.S. fishermen entered the industry through the 1970s and 1980s with the hope of substantial earnings from an apparently massive resource. Demand was so great and incentives so high that increasing numbers of fishermen entered the industry with greater amounts of capital invested in boats, instrumentation, and gear. As the number of fishermen increased, fish stocks began declining. Rather than promoting sustainability, the U.S. Government policy of open access appears to have encouraged expansion of the commercial industry by emphasizing short-term economic gains through competitive fishing rather than longer-term economic sustainability through

conservation of the fish stocks and of marine ecosystems. An accurate assessment of U.S. fishing fleet size is problematic. What is certain, however, is that increasingly effective and efficient fishing effort was employed to harvest a limited, dynamic resource. The question, therefore, is not only how to determine where excess exists, but whether, and if so how, to reduce it to ensure the sustainability of the resource as well as the short- and long-term economic well-being of those who harvest it.

Despite the increased capital input, fewer fish are now available to catch. By catching fish at rates above the capacity of natural stocks to replenish themselves through reproduction and growth, fishermen depleted stocks long ago. Increasing numbers of U.S. fishermen are vying for fewer fish, which results in smaller catch per unit of harvesting effort. More and more fishermen with technologically advanced instrumentation, gear, and boats fish less and less time to catch fewer and fewer fish. This has left the industry's infrastructure as overcapitalized as the ecosystems are overfished.

The cost of supporting this system must be paid by someone. Not surprisingly, demand increases coupled with fewer fish and higher harvesting costs have led to higher consumer prices. In some segments of the fishing industry, bargaining by harvester groups or associations has succeeded in passing along some costs to the processors, and ultimately to the American consumer. However, not all costs can be passed along, and thus profit margins for harvesters and processors are also squeezed.

The effect of overcapitalization cannot be measured on a financial scale alone. The ultimate effect bears most heavily on the health of fish populations and marine ecosystems. Under traditional fishery management regimes, managers seek to conserve the resource by making it more costly, in terms of effort, to harvest. This results in competitive pressure among fishermen to invest in improved gear and boats to maintain their harvests as each tries to make a living; overfishing thus persists in the face of regulation because of capital investments. The arguably ineffective regulations which govern fishing in U.S. waters have resulted in many devastated stocks with substantial financial loss and disruption to the economy, including: the demise of the haddock, cod, and yellowtail flounder off New England; precipitous king mackerel declines in the Gulf of Mexico; and the destruction of the Georges Bank herring fishery. Increased fishing pressure, pollution, and destruction of habitat in U.S. coastal and offshore waters contribute to stress on fish populations. Of 231 fish stocks in Federal waters, 65 (28 percent) are classified as overutilized -- that is, more fishing effort is expended than needed to harvest the potential yield -- and another 71 (31 percent) are classified as fully utilized; 68 stocks (29 percent) are classified as status unknown, while only 27 (12 percent) are classified as underutilized. (11)

Despite these conditions, some industry experts continue support for the present U.S. management regime, arguing that most marine fisheries resources within U.S. jurisdiction are in good shape and are being managed for sustained yield and full utilization. Even in the New England region, support for current management continues. (12) Figures from previous years lend some credibility to this continued support. The 1993 New England catch was 23.5 million pounds greater (4 percent increase) than it was in 1977, (13) while the value of the 1993 catch reportedly exceeded that of 1977 by nearly $350 million (not adjusted for inflation). (14) In addition, recent revitalization of striped bass along the Atlantic coast as well as of Alaska salmon indicates that some U.S. fish stocks are well-managed.

NATURAL AND ANTHROPOGENIC EFFECTS ON FISH POPULATIONS

Increases in the amount and/or intensity of fishing are not solely responsible for stock declines. In evaluating fish populations, scientists examine anthropogenic effects as well as the effects of a host of natural occurrences. Natural environmental changes may affect biological productivity *(i.e.,* survival, growth, mortality) of a fishery resource in a largely unpredictable fashion, yielding wide fluctuations in

annual production. Natural fluctuations in water temperature and salinity, for instance, can significantly affect populations of small pelagic species, such as sardines, anchovies, pilchard, and capelin. (15)

Equally important, and at times surpassing the effects of natural variation, are the effects of human activities. Such factors include the destruction of coastal spawning habitats, certain fishing practices that kill vast numbers of immature fish and "non-target" species, impoundments along migratory routes, harmful land use practices, pollution and sedimentation, and continually increasing fishing pressure.

Acting alone, natural and human factors can greatly alter the numbers of fish. Acting together, the effects can be devastating. During the early 1970s for instance, the Peruvian anchovy stock experienced a massive decline. Ocean temperature and salinity changes, caused by an *El Nino,* coupled with overfishing reduced the stock nearly to extinction. More recently, a 1993 *El Nino* moved warm, less fertile waters north to Southeast Alaska, extending the range of several Pacific species. Tuna, sunfish, and, most importantly, mackerel have been reported far outside their normal ranges, as far north as the Queen Charlotte Islands; mackerel were observed feeding heavily upon herring and juvenile salmon. As a result, both herring and salmon recruitment (16) figures have dropped and are predicted to continue dropping through 1996. (17) Fishery managers predict that the recent *El Nino* will have substantial residual effects upon salmon through at least 1997. Habitat degradation has worsened matters, attributable in part to policies allowing or encouraging development in environmentally sensitive areas, including hydroelectric dams and other barriers to migration, logging, and water withdrawals for irrigation as well as municipal and industrial use. Fisheries managers face a daunting task in distinguishing between natural fluctuations in growth and recruitment in fish populations and adverse trends caused by fishing mortality and other human activities.

OVERCAPITALIZATION: A WORKING DEFINITION

From within lecture halls and from aboard the decks of fishing boats alike, one word has been used to describe the condition of the U.S. fishing industry --overcapitalization. Because the state of U.S. fisheries has far-reaching influence upon the livelihood of many individuals and the well-being of a host of businesses and communities, overcapitalization merits a widely acceptable definition. However, agreement has been hampered by the many disciplines and interests involved -- economists, biologists, harvesters, conservationists, and others -- and the lack of a common language by which to discuss and define the term. Discrepancies in semantics, as well as conflicting interests and values, has led inevitably to inconsistencies in and confusion over the term "overcapitalization."

Some argue that overcapitalization is a term that may be applied to any industry where excessive capital investment exists. Many fisheries managed under open access have excess capital invested compared to that required to harvest the available resource efficiently, much more capital than is necessary. (18) Thus, in a purely static sense, overcapitalization explicitly refers to the existence of more capital applied in an industry than is necessary for the most efficient operation.

The fishing industry is not static, however. In reality, optimum fleet size to harvest the resource may necessitate certain "inefficiencies," such as the capacity of Alaska fishermen to adjust to wide fluctuations in anticipated salmon runs or the ability of marginal fishermen to shift among various seasonal fisheries. (19) The appropriate level of capital depends on a number of highly variable and unpredictable factors -- natural oceanic and atmospheric conditions that significantly affect the numbers of fish available and can fluctuate substantially between seasons. Consequently, current population assessments as well as future predictions are often problematic; they often are insufficient to craft effective management regimes and sound harvesting plans. Without accurate population data, it is

difficult to assess industry efficiency at any given time and, therefore, to determine the extent of overcapitalization. Comparing the total amount of capital invested in gear, instrumentation, boats, and labor to total harvests oversimplifies a complex and highly intricate industry. Conversely, identifying where excess capital exists is also problematic because no methodology currently exists to measure individual components of the industry.

At least four interrelated forces contribute to overcapitalization: (20)

(1) Open access motivates fishermen to invest excessively in capital and labor to compete in the "rush for fish." The latest and best technological equipment and machinery are seen as necessary to maintain a competitive edge within the fishery. In addition, fishermen want to be in the best competitive position to take advantage of the appearance of a dominant year class within the fishery.

(2) Tax incentives (depreciation and operating costs) are given to owners regardless of how much fishing is done.

(3) Government assistance programs lower the cost of capital and allow uneconomic investments to be profitable.

(4) Fishermen anticipate that Federal, State or regional public bodies will eventually impose some sort of access controls. Such anticipation may motivate some individuals to enter the industry prematurely. Others may be deterred from leaving ailing fisheries and moving into more profitable new fisheries for fear of being denied significant quota shares if access control is adopted for their traditional fishery. (21)

With declines in fish populations, the phrase "too many fishermen chasing too few fish" has become a cliché. Stock depletion within the New England, Gulf Coast, and Pacific Northwest fisheries, matched by declines in profit, attests its accuracy. Yet, it is not just the number of fishermen which counts, but also the size of their nets, the number of their hooks, the sophistication of their electronics, and the girth of their boats -- in short, their capacity to fish. (22) Again, the extent to which excess capacity resides in the amount of capital invested in gear, instrumentation, and boats, or in the amount of labor, remains unclear. If the United States wishes to control overfishing, it will need to consider the problem of excess capacity in parts of the commercial fishing industry. The nature of an open access system, combined with a highly competitive industry, have limited the effectiveness of traditional control and management efforts. And subsequent to controlling access, further major questions will likely focus on how to move from limited access to controlled effort.

OPEN ACCESS AND THE "TRAGEDY OF THE COMMONS"

The number and variability of anthropogenic and natural factors influencing fish populations presents scientists and managers with the unenviable task of devising management regimes to ensure proper use of fishery resources. Open access into the fishing industry, for the most part, has rendered effective management regimes difficult to devise and nearly impossible to enforce. Federal management of the U.S. commercial fishing industry, directed by NMFS under the authority of the MFCMA, has generally not sustained fishing yields. (23) A central factor in the inability to manage fish stocks effectively has been open access and the ineffective allocation of fishing rights within domestic fisheries. This raises several questions. Foremost is: why are U.S. commercial fisheries dominated by open access regimes? Further, what alternative management regimes exist? Finally, if such alternative management systems do exist, what role might the Federal Government play in their acceptance, implementation, and enforcement?

Substantial literature, both popular and scientific, exists on open access to public resources. Two common perspectives are similar, but distinct. One was initially articulated in 1968 by Garrett Hardin in his work on the "tragedy of the commons." (24) According to this perspective, natural resources held in "common" are doomed to overexploitation. Users of these common resources do not have exclusive rights, and cannot prevent others from sharing in their exploitation. (25) From this perspective, such natural resources are inevitably overexploited because each user places self-interest above community interests. Individual users compete with each other to gain a larger share of the total, and it is unlikely that individuals would willingly restrain their efforts, because anything left will certainly be taken by others.

It is argued that overutilization and overcapitalization result because individual users of the common resource do not bear all the costs. (26) Although fishermen invest in boats, gear, and instrumentation, they do not invest in the preservation and maintenance of the resource because they cannot be assured of reaping the rewards of that investment. Each fisherman, operating individually, seeks to maximize profits. Because there are no costs of resource protection or depletion, profits are "excessive" and attract additional fishermen. The added number of fishermen, then, results in an excessive amount of labor and capital applied to the industry. With the total harvestable resources being shared by more and more individuals, total costs rise and profits fall until total revenues equal total expenses (excluding the cost of depletion), profits disappear, and the resource is depleted.

A second perspective on open access fishing criticizes Hardin's model as making too many assumptions about the resource and about the selfishness of fishermen. Hardin's model equates common property with open access management. Others, however, distinguish between these terms. Under open access, anyone can use the resource. A common property resource, on the other hand, is owned collectively, either by society at large or by a specific community, and therefore is subject to the collective interest. Access to common property can be restricted, and case studies show that many users can and do cooperate to protect common property resources. (27) Communities that depend on common resources have occasionally implemented arrangements to manage those resources, with varying degrees of success. (28)

This second approach postulates that open access to a resource does not necessarily lead to overexploitation, and that sustainable resource management is not inherently associated with any particular property rights regime. It holds that the argument that self-destruction is inevitable, unless common property is converted into private property or strictly regulated, should be evaluated critically. Clearly, historical accounts of well-managed communal properties must be viewed within their social and economic contexts. In a late 20th Century world, locally cooperating participants might be unable to regulate use of common fisheries, because the dilemma is global. The economic interdependence and pressures of the global market, combined with perceived declines in the ability of social pressure to modify individual behaviors, are of a scale and nature unknown in the 18th and 19th Centuries. (29) Thus, a key continuing question is whether and how fishermen can develop voluntary, local cooperation in an industry where market pressures are increasingly global.

TRADITIONAL CONTROLS

Most U.S. fisheries operate under open access conditions for U.S. citizens. Currently only 5 of 43 fishery management plans, prepared under the authority of the MFCMA, control access to fishery resources. In open access marine fisheries, only management jurisdiction over fish is claimed; rights to the resource (in the "property" sense) do not exist until the moment of harvest, and are neither transferable nor enforceable until the fish are on the deck of the fishing vessel. (30) Present markets are not efficient in allocating the resources used to harvest fish, and intense competition in open access

fisheries often leads to overcapitalization in the fishery, excessive fishing effort, and overfishing; *i.e.*, too many fishermen harvesting too few fish. In the Gulf of Mexico shrimp fishery, for example, the fishing fleet is allegedly three times the size necessary to harvest the present catch. (31)

The traditional approach to solving the problem of overexploitation has been to adopt fishery management regulations to treat the symptoms. Fishery managers have tried to reduce excessive fishing pressure through four types of programs designed to restrict the activities (32) of current participants: (1) establishing seasons in which particular species may be harvested, to limit who participants can fish; (2) closing areas, to limit where they can fish; (3) restricting gear, to limit how they can fish; and (4) mandating total allowable catches (total quotas), to limit fish harvest. (33)

Governments often deal with the problem of overfishing first by limiting the overall catch of certain fish in their jurisdictions. Theoretically, such a limit (often referred to as total allowable catch or TAC) will provide for future catches by leaving enough mature fish to reproduce and replenish the natural stock. Yet, the incentives for competition created by imposing such limits can lead to other problems. Knowing that the season will end as soon as the harvest quota has been reached, fishermen often race to catch as many fish as possible. The result can be a hectic "fishing derby" that results in wasted fish, poor product quality, high processing and storage costs, loss of vessels, and frequent injury or occasional death of fishermen. For example, on September 12, 1994, the North Pacific halibut fishery opened to harvest an 18-million pound quota; by September 15, the U.S. Coast Guard reported one halibut fisherman dead and fifteen rescued after vessels sank or took on water in foul weather during the 48-hour "derby."

Such highly competitive harvests in an overcapitalized fishery may also dump more fresh product on the market than can be handled. Prices paid to the fishermen are forced lower by large landings. After the season closes, prices increase since no new product is being harvested. The fisherman must accept the lower price offered since catch quality deteriorates despite investments in refrigeration. If a fisherman hesitates to fish, others will quickly harvest the resource until filled quotas end the fishery. A recent article portrayed the reality of harvest quotas within the New England lobster fishery: fishermen reached quotas within two weeks of an anticipated month-long Massachusetts State lobster season; because quality deteriorates with storage, most product was immediately marketed; after a short period of lower prices, supply diminished and prices rose. (34)

In many ways, traditional fisheries management may be viewed as a constant battle between government management and private industry. For example, if management were to reduce season length by one-third, fishermen would likely increase effort during the shorter open season. In the short term, fishermen may not be able to respond quickly and harvests might temporarily fall. yet over time, they can build bigger boats equipped with more sophisticated gear and instrumentation. Because such competitive vessels are more expensive, they therefore increase the cost per unit of product harvested. (35) And, to the extent that the short-run reduction in effort is successful in increasing the size of the stock, each fisherman may justify the additional expenses by the anticipated increase in harvest. This is what some analysts refer to as a "social trap" -- what appears to be good for each individual is self-defeating when all individuals act similarly. The increase in the effectiveness of the fleet can send fish stocks into further decline. The managers then need to reduce seasons further to restrict harvesting, thus perpetuating this expensive and destructive phenomenon. In this case, any biological gains are lost, and the capacity and costs of the fleet are higher than before. In addition, vessels may sit idle for increasingly long periods (or move to other fisheries).

Similar events may unfold with closed areas or gear restrictions. If managers restrict the use of one gear to the extent that it helps stocks increase, fishermen will have incentive to increase the use or sophistication of other non-restricted gear. Closed areas, closed seasons, and restricted gear plans

appear to all suffer the same potential weakness -- they may not be effective under open access in reducing long-term fishing mortality. At the same time, they encourage fishermen to fish in ways that result in higher harvest costs than would otherwise be the case. Total quotas can be effective biologically, to the extent that they can be enforced. However, they also encourage excess investment in the fishing fleet and hence higher costs because each fisherman must be competitive to take as much of the quota as possible before the fishery closes.

A management regime which insures that society makes reasoned use of communal fish stocks and the inputs used to harvest and process them has proven elusive. There is widespread agreement that reasoned use can not be achieved under complete open access. While quota management measures have proven successful in some cases, the frequency with which overfishing occurs indicates they are not universally successful. Total, vessel, or trip quotas; gear restrictions, limitations, or prohibitions; and controls on total effort through moratoria, limited entry programs, or gear efficiency regulations have all been proposed to prevent overfishing.

As stocks recover due to well-enforced total quota regulation, catch per unit effort (CPUE) increases, leading to increased profits for individual fishermen. These profits create incentives for others to enter the fishery and for existing fishermen to expand their fishing power. The result is shorter fishing seasons and/or more complex management regulations. For example, the Gulf of Mexico shrimp and the South Atlantic and Gulf of Mexico coastal migratory pelagic fishery management plans have each been amended six times and the South Atlantic snapper-grouper management plan has four amendments. Arguably, the social costs of this management approach are the inefficient use of capital and labor in the harvesting and processing sectors that could have been used more productively in other sectors of the economy. While harvest levels increase under this management philosophy, harvesting costs increase as new fishermen enter the fishery and existing fishermen expand the fishing power of their vessels, while other sectors of the economy are denied the use of investment capital.

FEDERAL STATUTES AFFECTING FINANCIAL ASPECTS OF THE U.S. COMMERCIAL FISHING INDUSTRY

If, as is generally accepted, overcapitalization prevails within the U.S. commercial fishing industry, and if Federal action is deemed necessary, existing laws may need to be reviewed and provisions may need to be amended. A host of Federal statutory provisions affect the marine fishing industry. (36) For example, some laws relate to various financial opportunities within the industry, others are concerned with regulation, still others deal with financial assistance and loan opportunities, and some involve applicable tax provisions.

A review of these laws suggests that many may affect the financial well-being of the fishing industry. Scattered throughout the U.S. Code, administrative authority resides in numerous agencies within the Departments of Agriculture, Commerce, the Interior, Labor, and State, as well as within independent agencies, such as the Federal Maritime Commission and Small Business Administration, to name but a few. The subject matter of these statutes ranges from laws designed to protect fish, those created to protect fishermen and their vessels, those to regulate commerce and/or to protect consumers, and those to provide financial aid for both under- and unemployed fishermen. Despite their variety, each statute influences the allotment and management of capital. Only a careful, detailed study could determine in what way, if any, they have individually or collectively contributed to excess capital within the industry. Those laws which provide "direct financial assistance" (especially for vessels and gear) including tax incentives and access to "preferential loan rates," can significantly alter the level of capital investment in the fishing industry. Finally, agency regulations, Federal statutes, treaties and conventions, judicial decisions, and State laws also influence the economic structure of the industry

and would need to be factored into such an assessment of the economic relationship between earnings and capital invested.

NMFS's fisheries financial services programs have provided long-term fisheries credit for more than two decades. NMFS became concerned about fisheries overcapitalization in the late 1970s, and began restricting its fisheries credit accordingly. Through its conditional fisheries rule, NMFS made financing unavailable for new vessel construction in fisheries where additional vessel capitalization was unwarranted. North Atlantic groundfish, for example, was declared a conditional fishery as early as 1979. Other conditional fisheries soon followed: Alaskan salmon, Alaskan king crab, Pacific Northwest and California salmon, yellowfin tuna in the Inter-American Tropical Tuna Commission regulatory area, lobster in the Gulf of Maine, and Atlantic surf clams. Further credit restriction occurred in 1992, when NMFS made financing unavailable for the construction, purchase, or reconditioning of fishing vessels under its Fisheries Obligation Guarantee Program.

THE ROLE OF GOVERNMENT IN RESOURCE MANAGEMENT

The U.S. economic system generally relies on transactions between producers and consumers in free markets to determine the outputs of goods and services. Prices established within this private exchange system are the basis for allocating land, labor, and capital among producers, and goods and services among consumers.

Two classical market failures are often used to justify government intervention in private markets. The first occurs when a private exchange affects third parties (those not involved in the exchange), and those effects are not taken into account in the exchange. These effects are external to the exchange, and are known as *externalities.* For example, commercial fishing is an exchange between fishery "owners" *(i.e.,* the community in open access fisheries) and fish harvesters, but the harvest can affect other people by altering fish habitats, animal populations (of both target and nontarget species), and other resource conditions. An externality of particular concern in resource management is the impact on future generations -- potential future shortages from current overuse or misuse of productive assets, leading to their destruction. Externalities are market failures, because the exchanges ignore some costs (or benefits) imposed on society, and thus may result in more (or less) production than is socially desirable.

The second classical market failure occurs when a good or service can be used or enjoyed simultaneously by several people, and the owner or producer has difficulty controlling (and therefore charging for) its use or enjoyment. Such goods and services are *called public goods.* Often, public goods include resources that exist over spacious areas and/or that are mobile. Commercial fisheries fit this description, since fish are mobile and fishing grounds can cover vast areas, both of which may prevent effective control on access. In addition, *nonuse values* -- good feelings resulting from the existence of the goods or services *(e.g.,* natural wonders and endangered species) or from the desire to leave them as a legacy for the future -- contribute to the "public-ness" of some goods and services; it is impossible to prevent people from having those good feelings, if the values exist, and thus it is impossible to make those people pay for their good feelings. Private transactions in public goods result in market failures, because the possibility of simultaneous use and the difficulty of controlling access make profitable private exchange ineffective, and thus, fewer public goods would probably be provided by private markets than are socially desirable.

As much as a century ago, many foresaw socially undesirable consequences, particularly possible resource shortages, from allowing market-based allocations of natural resources. Although market failures were not cited as the justification, Congress and the President used government ownership to

protect certain lands and resources from the problems of market failures with private ownership, beginning with the establishment of Yellowstone National Park in 1872. States, rather than the Federal Government, have traditionally exercised direct control over most animal and water resources, although the Federal Government often heavily influences the management of these resources. Federal control and responsibility over fisheries in offshore U.S. waters were established by the MFCMA in 1976. Such control is similar to ownership, but differs because owners are able to extract rents from users; the MFCMA currently prohibits the Federal Government from charging a market fee for commercial fishing in U.S. waters.

In the past 30 years, government regulation of private activities has become a standard technique of market intervention for protecting the environment (as opposed to government ownership). In such situations, governments (usually Federal or State) specify permissible and/or prohibited activities or results for a particular resource or condition (e.g., water quality effluent standards for discharges into navigable waters). Federal control over commercial fishing in U.S. waters is more similar to regulation than to ownership, because the control mechanisms used parallel the regulatory approaches used for environmental protection.

Finally, the Federal Government has long used an array of incentives and assistance to induce private resource owners to behave in socially desirable ways. Assistance can be technical or financial (or both), and is often made available in conjunction with State programs. Tax incentives are also used to make it profitable for the private sector to alter behavior. However, as described above, many assistance and incentive programs were created without regard to their impact on natural resources, and may damage, rather than protect, the resources.

OPTIONS FOR CONGRESS (37)

Options available to Congress, should it choose to deal with overcapitalization in the commercial fishing industry, can address the causes of overcapitalization outlined on page 8. In addition, several options address the need for obtaining additional data to better characterize existing problems. Such options attempt to balance sustainability and a concern for private property rights of fishermen, while embodying a sense of the public trust in fisheries resources.

Necessary Data

More and better economic data are needed to determine what is happening within the U.S. commercial fishing industry. Managers need to quantify what they subjectively know to be a problem. Fishery managers, in many cases, lack adequate information on the number of commercial fishing vessels, much less on their value, fishing capacity, estimated operating costs, and other features. Some have suggested that a national registry of all fishing vessels should be developed. In addition, standardized ways for better measuring or estimating, in a comparable manner, the amount of capital invested in diverse fisheries as well as fishing effort regardless of gear and vessel configurations would assist in cross-fishery analyses.

Competitive Open Access

Competitive open access fishing makes it difficult for biologists to manage for sustainable fish stocks, may affect the efficiency of invested capital, and has often provided minimal profits for many fishermen. Thus, some have suggested that controlled access (limited entry) regimes for fisheries be more extensively implemented. These might include, where appropriate, the use of management tools such as license limitation, individual fishing quotas, individual transferrable quotas, or other measures.

Consolidation of fishing fleet size has been achieved by limited access in several U.S. fisheries managed under the authority of the MFCMA. (38) Controlled access could be facilitated through further amendment of the MFCMA and other applicable law to encourage more development of regionally appropriate and acceptable limited access management programs. However, it remains difficult to measure the impact that any limited access program might have on fishery capitalization levels. Certainly, capitalization levels do decline as vessels retire from a fishery, and money previously spent for insurance, maintenance, depreciation, and interest expenses can be put to more productive use elsewhere. However, limited access would not be expected to solve the problem of overcapitalization without concurrent or subsequent control and reduction of fishing effort.

Short of implementing limited access programs, fishery managers could be required to review fishery regulations that manage fisheries by imposing harvesting inefficiencies (e.g., gear restrictions, area and season closures, vessel size or power restrictions) on fishermen. Many observers content that such regulations force fishermen to invest excessively to maintain their competitiveness, while draining the fishery of its profit potential. Some suggest such measures also encourage illegal activity. An alternative approach might be to require that fishery management plans and amendments, developed under the authority of the MFCMA, be reviewed to avoid or minimize unnecessary competition within each fishery.

Although some suggest that another possible option would be an orderly transition to corporate management through privatization of the fisheries resource, this is not currently a possibility under international law, which gives the coastal state the right to manage and exploit these resources to 200 miles but does not incorporate the concept of ownership. Accordingly, the United States has never claimed ownership of the resource, but only extended management jurisdiction over fisheries in the 200-mile Exclusive Economic Zone. Such an approach, were it possible to create vested property rights to the fisheries resource, might be seen as a step beyond limited access management, where only the right to fish may be conveyed to fishermen.

Other possible alternatives include cooperative management at a more local level under the present Regional Councils. Entities which are locally based could be more responsive to local situations, but add more bureaucracy to already cumbersome management of marine fisheries. Such entities could manage both entry and effort in local fisheries. However, many fisheries are sufficiently large that benefits of such an approach may be minimal or contrary to sound biological management of fish stocks.

Tax Incentives

The impact of Federal and State tax incentives, including government loan programs, vessel depreciation schedules, and non-road fuel tax rebates, applicable to the U.S. commercial fishing industry has not been well quantified. Although the broad scope and magnitude of many of these provisions should be calculable, their differential effect on various fisheries has not been evaluated. Such information would be necessary to make sound decisions concerning the effects of any modifications on the flow of capital into or out of some or all segments of the U.S. commercial fishing industry.

Other Government Programs

It would similarly be useful to have a comprehensive study quantifying the impacts of other forms of direct and indirect Federal and State assistance provided to the U.S. commercial fishing industry. How much money has flowed to the commercial fishing industry from the various government programs

over what time period? As above, such information would assist in making decisions concerning the effects of modifying inducements to capital flow into or out of some or all segments of the industry.

Some have suggested that Federal user fees or royalties could recover management costs and even reasonable economic rent from users of publicly owned resources; such returns are said to represent an equitable return to the public treasury. One means to accomplish this, some suggest, is that fishing rights be purchased from the Federal Government, rather than granted through political or administrative decisions -- e.g., the United States might establish a competitive bidding procedure similar to how offshore mineral resources are allocated. An important aspect of any fee or tax program is that such measures should, if possible, be imposed only when implementation of the new management programs begin. This is so that one does not change the assumptions on which investments have already been made in the commercial fishery. More realistic would be determining how to impose fees or taxes in a manner which minimizes effects on existing investment in the fishery (except when the explicit purpose is to reduce existing investment).

Limited Access Anticipation

Piecemeal implementation of limited access programs can easily displace fishing effort from one overcapitalized fishery to create new problems in other areas and fisheries. Thus, some argue that commercial fish harvesting should be coordinated among State, Federal, and international jurisdictions such that an entire fishery or group of related species can be managed throughout its range by a cooperative management regime. Similarly, some suggest the need to impose constraints on new entrants to any U.S. commercial fishery or some other scheme to prevent a "domino effect" from shifting overcapitalization from one overdeveloped fishery to adjacent areas or fisheries.

An alternative to a moratorium on new entrants to all fisheries might involve facilitation of movement of capital out of overcapitalized fisheries by enhancing the "transferability" of money and capital investment among different fisheries and/or out of the fishing industry entirely. One such approach might involve the creation of a fishing vessel and gear "bank" as a holding institution responsible for purchasing excess fishing vessels and gear and reallocating or selling purchased items such that new or additional fisheries problems would not be created; coordinated national licensing of fishing vessels and gear might be necessary to make such a bank feasible. Major concerns with such an approach would include how to facilitate the market to accomplish this task with minimal Federal intervention, and how such a venture might be funded. One option for funding might be to amend the Saltonstall-Kennedy Act of 1954 to fund efforts to remove vessels from the domestic fishery, rather than its current purpose of encouraging further development.

Endnotes

1. Damian V. Preziosi, Master's degree candidate at Bucknell University, researched and prepared a draft of this report under the supervision of Eugene H. Buck, Senior Analyst in Natural Resources Policy.

2. Christy, Francis T., Jr. "Fisheries Management and the Law of the Sea" in: *Economic Aspects of Fish Production.* International Symposium on Fisheries Economics, Paris, Nov. 29 -Dec. 3, 1971. Organization for Economic Cooperation and Development, 1972. p. 12.

3. Schmitten, Rolland A. "Foreword" in: *Our Living Oceans: Report on the Status of U.S. Living Marine Resources, 1993.* Washington, DC: U.S. Dept. of Commerce, National Marine Fisheries Service, Dec.. 1993.

4. Fishery Conservation and Management Act of 1976, Pub. L. 94-265, 90 *Stat.* 331, 16 U.S. *Code* 1801-1882.

5. The growth in landings is predominately due to the displacement, by domestic vessels, of foreign fleets operating in Alaskan waters.

6. Technological advances also increased fishing power and reduced fishing costs (when fish stocks were plentiful), helping U.S. fishers expand their capacity.

7. United Nations Food and Agricultural Organiz[illegible]n. Fisheries Technical Paper 335. Rome, Italy: 1994. p. 23-29.

8. United Nations Food and Agriculture Organization. *Agriculture Towards the Year 2010.* 27th session. Rome, Italy Nov. 1993.

9. *Ibid.*

10. Weber, Peter. *Net Loss: Fish, Jobs, and the Environment.* Worldwatch Paper 120. Washington, DC: Worldwatch Institute, 1994. p.120-127.

11. U.S. Dept. of Commerce, National Marine Fisheries Service. Our *Living Oceans.* Washington, DC: Dec. 1993. p. 11.

12. Some critics argue that fishermen are likely to support current management as long as it continues to provide harvest opportunities, especially when the alternatives would prohibit or greatly reduce fishing.

13. Although total catches were greater in 1993 than in 1977, the catches of several mainstay species were less. For example, the combined catches of haddock, cod, and yellowtail flounder were about 130 million pounds in 1977 (55 percent cod), but only about 60 million pounds (80 percent cod) in 1993. (NMFS, *Status of Fishery Resources off the Northeastern United States for* 1982, Woods Hole, MA: NOAA Technical Memorandum NMFS-F/NEC-22, June 1983, and *Status of Fishery Resources off the Northeastern United States for 1993,* Woods Hole, MA: NOAA Technical Memorandum NMFS-F/NEC-101, October 1993.)

14. Weddig, Lee J. "Bounty of the Sea." Letters to the Editor, *Washington Post,* August 16, 1994, p. C12.

15. Environmental changes may alter the geographical and bathymetric distribution of marine species. By expanding or compressing species' ranges, or in some other way affecting the life history of marine fish, environmental changes can lead to a restructuring of an ecosystem and a redefining of the role, position, or occupation of its individual species. Any natural ecosystem, by virtue of its highly ordered and complex arrangement, represents an extremely responsive system. Thus, an ecosystem and the highly intricate and varied interactions of its species may be altered by subtle environmental changes.

16. Survival and maturation to harvestable size.

17. Doherty, T.J. "El Nino Threatens B.C. Herring, Salmon." *Pacific Fishing* 15(1994):17, 66.

18. Meyer, R. M. "Fisheries Resource Utilization and Policy." in: *The State of the World's Fisheries*

Resources, Proceedings of the World Fisheries Congress Plenary Sessions. Clyde W. Voigtlander, ed. New Delhi: Oxford and IBH Publishing Co., 1994.

19. Serchuk, Fredric M., and Ronald J. Smolowitz. "Ensuring Fisheries Management Dysfunction: The Neglect of Science and Technology." *Fisheries* 15(2), 1990: 4-7.

20. Stadem, Norman. "Implication of Individual Fishing Quotas." m: *BioEconomic Research and Analysis Report.* Anchorage, AK: 1992.

21. New England scallop and groundfish vessels are believed to have aborted their attempts to pursue underutilized species out of fear that such action would reduce their records of participation in their respective traditional fisheries. (Personal communication, Pat Flanigan, Marine Fishery Consultants, Inc., Swarthmore, PA, November 16, 1994.)

22. "Capacity" is a concept that can be defined and measured in several different ways. Because of the way in which fisheries operate, it is extremely difficult to define with precision or in a purely static sense. Nevertheless, it is possible to derive some operational definitions on a "threshold" basis that expose excesses. See: C. L. Smith and S. S. Hanna. "Measuring Fleet Capacity and Capacity Utilization." *Canadian Journal of Fisheries and Aquatic Sciences,* 47(1990): 2805-2901.

23. The chief objective of the Magnuson Fishery Conservation and Management Act, for instance, was to eliminate overexploitation of marine fish stocks off the U.S. coast by foreign fleets. Although the Act effectively removed that threat, it failed to anticipate that the same threat would quickly be posed by domestic fishers.

24. Hardin, Garrett. "The Tragedy of the Commons." *Science* 162 (1968): 1243-1248.

25. Christy, Francis T., Jr., and Anthony Scott. *The Common Wealth in Ocean Fisheries.* Baltimore, MD: The John Hopkins Press, 1965. 281 p.

26. Overcapitalization is rarely a concern in competitive industries where private property rights exist, because responsibility for the consequences of investment decisions can be fully internalized. With open access, however, investment incentives can be excessive because no one owns the resource to be exploited and therefore no one is responsible for undesirable results.

27. One author notes that the English commons was actually a highly regulated communal arrangement. See: Susan S. Hanna. "The Eighteenth Century Commons: A Model for Ocean Management." *Ocean and Shoreline Management,* 14(1990): 155-172.

28. Berkes, F.D., et al. "The Benefits of the Commons." *Nature* 340(1989): 91-93.

29. Scott, Anthony. "Obstacles to Fishery Self Government. " *Marine Resource Economics* 8(Fall 1993): 187-199.

30. Rosenberg, Andrew A. "Background on U.S. Fisheries: Status and New Directions" : *Limiting Access to Marine Fisheries.* Karyn L. Gimbel, ed. Washington, DC: Center for Marine Conservation and the World Wildlife Fund, 1994. 316 p.

31. Ward, J.T. *Modeling Fleet Size in the Gulf of Mexico Shrimp Industry, 1988-1989.* NOAA Tech. Memo. NMFS-SEFC-999. St. Petersburg, FL: NMFS Southeast Regional Office, 1989.

32. In many cases, traditional management seeks to conserve the resource by making it more costly, in terms of effort, to fish.

33. Beddington, John R., and R. Bruce Rettig. *Approaches to the Regulation of Fishing Effort.* FAO Fisheries Technical Paper No. 243, 1984. 39 p.

34. McNeil, Thomas. "New England Lobster Fisheries." *Washington Post,* August 8, 1994, p.

35. However, in the short-term, as less-efficient operators leave the industry, cost per unit of product harvested can decrease.

36. For more details on Federal laws applicable to marine fisheries see: CRS, Report 95-174 ENR, *Living Aquatic Resource Laws and Treaties: Reference Guide,* January 19, 1995, 29 p.

37. The order of items is this list does not imply any priority of concern, nor is it intended to be a comprehensive list of options available to Congress. Some options may be mutually exclusive, but others might be compatible or even reinforcing.

38. Between 1990 and 1992, the number of vessels harvesting surf clams in the Mid-Atlantic region dropped from 128 to 59; between 1989 and 1992, the number of vessels harvesting ocean quahogs in this same region dropped from 69 to 43. In the wreckfish fishery in the South Atlantic region, the number of vessels fishing dropped from 44 in 1991-92 to only 14 in 1993-94.

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National Council for Science and the Environment
1725 K Street, Suite 212 - Washington, DC 20006
202-530-5810 - info@NCSEonline.org

STATUTES GOVERNING BUY-BACK PROGRAMS FOR CFEC

Article 04. REDUCTION TO OPTIMUM NUMBER OF ENTRY PERMITS

Sec. 16.43.290. Optimum number of entry permits.

Following the issuance of entry permits under AS 16.43.270, the commission shall establish the optimum number of entry permits for each fishery based upon a reasonable balance of the following general standards:

(1) the number of entry permits sufficient to maintain an economically healthy fishery that will result in a reasonable average rate of economic return to the fishermen participating in that fishery, considering time fished and necessary investments in vessels and gear;

(2) the number of entry permits necessary to harvest the allowable commercial take of the fishery resource during all years in an orderly, efficient manner, and consistent with sound fishery management techniques;

(3) the number of entry permits sufficient to avoid serious economic hardship to those currently engaged in the fishery, considering other economic opportunities reasonably available to them.

Sec. 16.43.300. Revisions of optimum number of entry permits.

(a) The commission may increase or decrease the optimum number of entry permits for a fishery when one or more of the following conditions makes a change desirable considering the purposes of this chapter:

(1) an established long-term change in the biological condition of the fishery has occurred that substantially alters the optimum number of entry permits permissible applying the standards set out in AS 16.43.290;

(2) an established long-term change in market conditions has occurred, directly affecting the fishery, that substantially alters the optimum number of entry permits permissible under the standards set out in AS 16.43.290.

(b) If the commission decreases the optimum number of entry permits for a fishery, the number of entry permits may be reduced only under the voluntary buy-back provisions set out in AS 16.43.310 and 16.43.320.

Sec. 16.43.310. Establishment of buy-back funds and permit buy-back assessments.

(a) When the optimum number of entry permits is less than the number of entry permits outstanding in a fishery, the commission may establish a buy-back program, a buy-back plan, and a buy-back fund for that fishery.

(b) The commission may establish by regulation a permit buy-back assessment for each fishery for which the commission has established a buy-back fund under (a) of this section. The amount of the assessment may not exceed seven percent of the value, as defined in AS 43.75.290, of fish that a permit holder in the fishery subject to the assessment removes from the state or transfers to a buyer in the state. The Department of Revenue shall collect an assessment established under this subsection.

(c) The commission shall expend money appropriated to a buy-back fund for the purpose of reducing the number of entry permits in the fishery to the optimum number, at a rate to be established by the commission. The legislature may appropriate interest accrued on the money in a buy-back fund to that fund. Except as provided in AS 16.43.320, money appropriated to a buy-back fund does not lapse.

Sec. 16.43.320. Administration of the buy-back program.

The commission shall adopt regulations providing for the purchase of transferable entry permits with money in the buy-back fund for each fishery. The buy-back program for a fishery shall terminate when the number of entry permits for the fishery is reduced to the optimum. The unexpended balance of appropriations made to a buy-back fund for a fishery shall lapse back into the fund from which the money was appropriated at the end of the fiscal year in which the buy-back program is terminated.

SB 315 : re admin of comm fish entry permit buy-back (Sen. Ben Stevens)

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