

INCORPORATING COASTAL COMMUNITIES INTO CATCH SHARE PROGRAMS



**A Brief Overview of the Alaska Experience
With a Particular Focus on the
Bering Sea/Aleutian Islands Crab Rationalization Program**

1. **Think of Commercial Fisheries as the “infrastructure” in a Public/Private partnership that moves a public resource to the consumer.** In this light, the investments and dependencies of both the private sector and local communities must all be considered.
2. **Catch Share (aka “rationalization”) programs eliminate the “race for fish” and replace it with a “race for efficiency.”** This can be devastating to a fisheries-dependent community. As the private sector pursues efficiency gains, dislocations will result through changes in landings patterns, consolidation and other effects. At the

community level this is best illustrated by the Alaska halibut and sablefish ITQ program. As the first catch share program in the State of Alaska, the halibut and sablefish ITQ system delivered significant benefits to the fishing fleet through increased safety and higher value products for consumers. It also benefitted the resource itself by spreading the fishing effort over a much wider geographic area and period of time. But the program also had its flaws. By focusing only on fishing effort and the fishing fleet itself, the program harmed many of Alaska’s rural coastal communities as port deliveries consolidated in just a few towns and rural quota share holders sold off their fishing rights in response to economic hard times. To protect coastal communities from the effects of reduced participation in the halibut and sablefish fisheries, the North Pacific Fishery Management Council (Council) recently implemented Community Quota Entity (CQE) programs. Under CQEs, a new group of non-profit entities can hold halibut and sablefish QS on behalf of residents of specific rural communities located next to the Gulf of Alaska. CQEs are post-rationalization community protection measures that would not have been necessary if we had properly identified all stakeholders during the design of the Program; By enacting CQEs, the Council acknowledged that the initial harvester-only allocation of Quota Shares did not sufficiently protect coastal communities from economic degradation and that considerations of social welfare are as important as economic efficiency. These lessons have been well learned and the most recent program, the BSAI Crab Rationalization Program, has a significant number of community protection measures that insure crab-dependent communities receive their historic share of landings and that these communities can acquire both Processor Quota Shares and harvest sector Quota Shares as the ultimate guarantee that they have continued access to the resources upon which their economies are built.



Under the Halibut and Sablefish ITQ Program, the loss of community landings and locally-held halibut IFQ in rural Alaska as a result of the “race for efficiency” was unanticipated and significant. The NPFMC has now created a “Community Quota Entity” program to restore local access to the resource and local economic activity. Hoonah is one of several examples.

3. The Bering Sea crab industry is both capital intensive and landings intensive. The risk of consolidation under a catch share program created huge risks to crab-dependent communities. If left unchecked the “race for efficiency” would have led to the potential closure of processing plants in several communities. In response we created (a) processor quota and harvest sector quota with regional landings requirements, (b) a two-year cool down period that prohibited in changes in delivery patterns at the individual community level so that there was a reasonable transition period, (c) community “rights of first refusal” to acquire the processor quota earned in their community as the ultimate guarantee that the community had access to the resource upon which it had built its infrastructure and economic dependence.



Once you consider our industry as necessary infrastructure for the delivery of a public resource to consumers, a “fishing-dependent community” is defined by its reliance on both harvesting and processing activities.

4. The loss of a major fishery through an unrestricted IFQ only program can have a domino effect on other fisheries and the local economy. In many Alaska communities, a single major fishery supports the local processing plant(s), and all other fisheries are landed and processed near their marginal cost. This provides an important boost to local employment and economic opportunity for fishermen. For instance, on St. Paul Island we developed a successful halibut cooperative that seasonally employs about 25% of the local residents and pays some of the highest ex-vessel prices in the state in spite of its remote location. If communities had lost their historic share of crab landings, the local fisheries were likely to collapse.

5. “Community protections” in a catch share program must not overburden the “race for efficiency”. The tough part is finding a reasonable balance. It is important to recognize that we are all operating in a globally competitive environment, where seafood product substitution and other market tactics require operating efficiency at all levels. It is important that every “stakeholder” in a catch share design process take the time to understand this environment. Designed properly, a catch share program actually gives everyone a sustainable foundation and a potential competitive advantage.



In Alaska, both halibut and herring fisheries are directly dependent on the larger crab fisheries at the community level. The crab fisheries are of sufficient scale that they cover most of the operating overhead and infrastructure development costs that the smaller fisheries could not otherwise afford. The loss of crab at the local level was potentially devastating.

A Final Few Words.

1. The benefits of properly designed Catch Share programs are huge.

Over time, all fisheries will be “rationalized” through bankruptcy, increasing regulatory pressure, and market pressures including product substitution. The question is, do you want a flexible catch share system to manage efficiency or a “last man standing” approach?

2. There are secondary benefits to a catch share program that may be, in the long run, as important as the initial goals.

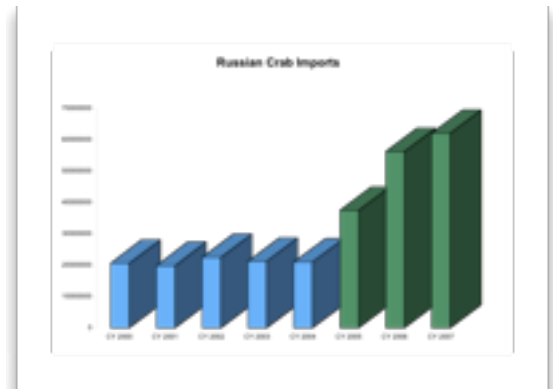
In our experience, catch share programs bring with them a new level of collaboration between industry, government and science. Climate change and its effect on the oceans is an issue that will always be with us. So too is the reality that government cannot do everything. All sectors of the seafood industry in Alaska have become the forward troops and necessary partners in the collection of biological and economic data and the enforcement of harvesting caps. A flexible catch share program also gives industry the tools to respond to unanticipated natural events.

3. Transferability and Permanence of quota shares are critical characteristics of a catch share program. Avoiding over-consolidation and preserving communities is a matter of program design.

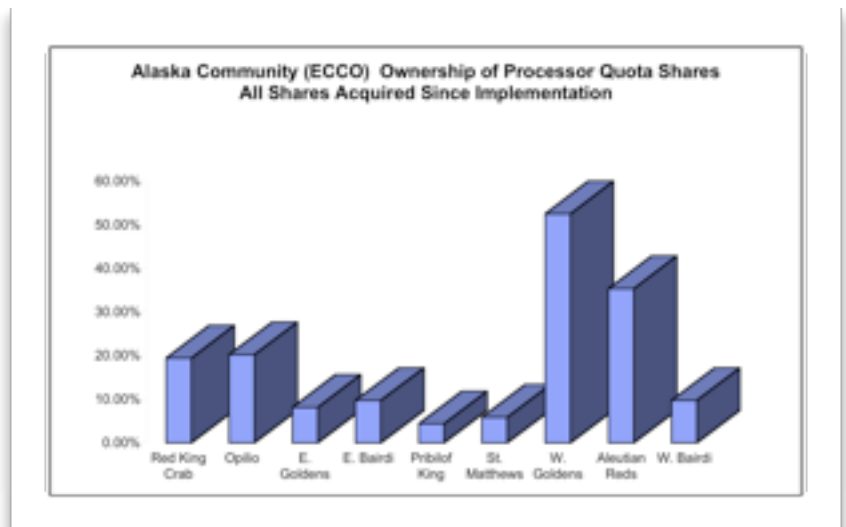
It takes tens of millions of dollars - or more - to develop, prosecute and maintain a fishery in an evolving global marketplace. Add the climate change dynamic and it becomes obvious that if we are to continue to wrestle protein from the sea we need to provide a stable investment environment coupled for both the public and private sectors, with fluid quota share markets. Ownership caps, use caps, ownership eligibility requirements and other restrictions are vital design elements.

4. Other Community Protection measures were analyzed while developing the BSAI crab program. They were rejected because there is no substitute for direct economic activity within a community. (Call me if you want to discuss why each alternative fell short).

- Direct initial allocations to communities.
- Increased CDQ allocations.
- Tax payment guarantees to communities in lieu of historic landing requirements.

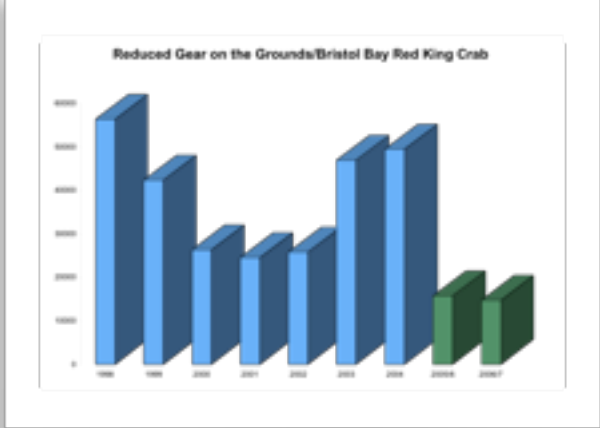
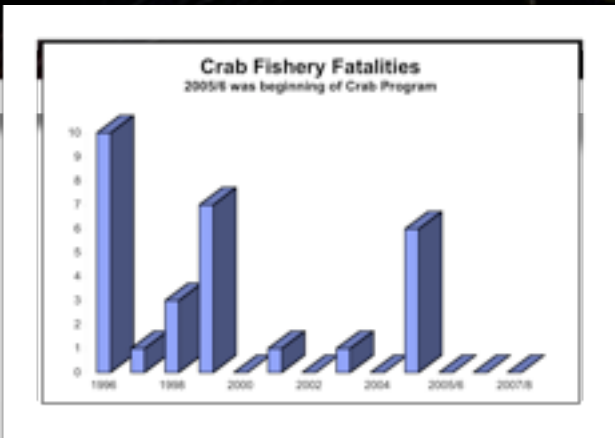


The BSAI crab catch share program was implemented in late 2005 - just as illegal crab from the Russian FarEast as well as huge harvests from the Barents Sea started flooding domestic markets. First wholesale prices declined almost 50% on average. The Alaska industry was able to respond through quota based, cooperative efforts.



The upshot is this: Eligible Crab Community Organizations (ECCO's), established to acquire hold quota shares on behalf their community, now own substantial amounts of Processor Quota Shares to insure their continued access to the crab resource.

And A few Items to Illustrate Other Benefits of Catch Share Programs.



Steven K. Minor is Managing Partner of Waterfront Associates, LLC. He has been involved in the commercial fisheries off the coast of Alaska since he was a commercial diver while attending university in the mid-1970's. Since the mid-1980's Steve has worked with several fisheries-dependent Alaska communities, harvesting and processing companies and fishing-related trade associations. While working with the Aleut community of St. Paul Island in the Bering Sea as the Community Development Quota ("CDQ") business manager, he developed the community protection measures that are now a major feature of the Bering Sea Crab Rationalization Program. Since 2006, Steve has been the Executive Director of the North Pacific Crab Association and Chair of the Pacific Northwest Crab Industry Advisory Committee, which serves both the North Pacific Fishery Management Council and the Alaska State Board of Fisheries. For more information on the BSAI Crab Rationalization Program, call Steve or go to www.wafro.com.



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