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PACIFIC SEAFOOD PROCESSORS ASSOCIATION

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October 8, 2016

Dan Hull, Chair
North Pacific Fishery Management Council

Re: Comments related to Council Agenda Item C-6 for the October 2016 meeting of the North Pacific Fishery Management Council – IFQ Program Review

Council Members:

Thank you for the opportunity to comment on the halibut/sablefish IFQ Program review. At the outset I would like to express appreciation to NMFS staff for reaching out to the processing sector to provide input to the draft program review and developing a comprehensive review that attempts to evaluate impacts related to the program's original ten objectives.

While the program resulted in some clear benefits for those that remain in the fishery, such as improved safety, ability to develop new markets, increase in quality and handling practices, there are some major impacts that warrant a closer look.

Overall, the IFQ Program had a significant impact on processors and communities, and these impacts are directly linked. The review points out that it was expected at the time of IFQ implementation that halibut processing needs would change with the program, due to the shift towards fresh product, and that this would provide opportunities for new processors to enter the halibut market and potentially allow new communities to benefit from these landings. That bears true in the data provided in the review, which indicate that processors that participated in halibut and/or sablefish pre-IFQ program declined by 90% as a result of the program (p. 171). It cannot be emphasized enough that the redistribution of landings as a result of the program was at the cost of existing (large and small) processors and communities that had benefited from both halibut/sablefish landings and the presence of a processor during the pre-IFQ fisheries.

This redistribution caused tremendous instability in the fishery and unnecessary costs to both communities and processors. The review consistently highlights that these negative impacts are balanced by the opportunity for new processors and/or different communities on the road system, and that these trends were expected. The total number of active processors and engaged communities pre- and post-program appear more important than the actual impacts on a large segment of businesses and communities that realized great losses as a result of the program, for example, the southeast community of Pelican. Loss of a processor and commercial

fishing fleet means loss of an economy for many small coastal communities. While the review cannot detail specific impacts in every community, using a few examples across regions of winners and losers might help elucidate actual effects. The scale of this redistribution and its effects on existing processing companies, rural communities not on the road system, and fishermen in non-IFQ fisheries such as salmon that were also dependent on having a local processor should be fully identified and addressed in the review.

As the SSC minutes point out (p. 24), a key mechanism for capturing fishery rent is through the employment and earnings in the processing sector. Many of the new buyers that started participating after the program were not facilities in fishing communities but low-cost operations on the road system. The SSC notes that while the document describes changes in the timing and location of the processing sector, understanding the number and structure of processing jobs is critical to monitoring whether and how the fishery is supporting its communities. Total numbers do not provide the Council with the level of evaluation necessary for a programmatic review.

PSPA offers the following additional comments and some suggestions to improve the final version of the program review relative to community and processor impacts:

- The review focuses on the 10 original objectives of the IFQ Program, per Council direction, and processors are addressed mainly under policy objective #5 'to maintain existing business relationships among harvesters, processors, crew'. As discussed above, impacts on processors are also directly related to the ability to achieve community objective #1 ('economic stability in the fisheries and communities, and rural coastal community development of a small boat fleet'), and this should be made explicit in the review. For many Alaska communities, processors are the primary employer, and taxes, employment, and local expenditures have a significant effect on the local economy. The evaluation of community impacts in Section 2.7 provides little treatment of this relationship and instead focuses on assessing the changes in QS holdings and IFQ landings.

- The SSC minutes (p. 24) also make clear that "while the document tracks the division of revenues between processors and vessels with wholesale and ex-vessel prices, this is not equivalent to tracking the extent to which fishery rents accrue to processors, vessel owners, crew, and quota owners, which is critical to monitoring the extent to which business relationships are maintained, and to which those who are directly involved in the fishery benefit from the IFQ Program."

  The review uses an analysis of price margins between wholesale and ex-vessel prices to indicate that halibut processor price margins have decreased over time, and anecdotal information from processors is included that states that these margins have essentially disappeared since IFQ implementation. While those trends are accurate, the indicators used in the review are not appropriate and could be misleading if they are relied upon to understand processor impacts, market share, and rent distribution between harvesters and processors over time. The document uses 'processor price margins' for

halibut and sablefish processors during the pre-IFQ baseline period and since IFQ implementation through 2014. The processor price margin is defined as (wholesale price – ex-vessel price)/wholesale price. In effect, the analysis is trying to show the share of the wholesale price retained by processors. However, this approach necessarily ignores the cost of production and thus does not provide the Council with any meaningful evaluation. The concept that the document refers to could more appropriately be referred to as 'processor price *percentage* margin'. The critical point is that the 'processor price margin' as defined by the analyst would always be expected to change as the wholesale price changes, as dictated by the formula, even if the absolute margin (wholesale price – ex-vessel price) stays the same. In effect, even if the processor is deriving the same amount of value per pound in two different years, the formula dictates that the percentage margin will change as the wholesale price changes. Thus, this approach is limited in its value. While the analysis is clear that processor *profit* margins would be a more appropriate metric and cannot be provided, the review should, at a minimum, include the caveats above.

- One key finding in Section 2.4.2.3 relative to processor impacts is that there was an increase in bargaining power for harvesters. One referenced study shows a near symmetric bargaining position and rent distribution among harvesters and processors and another referenced study shows significant loss of rents for processors both pre- and post-IFQ Program. Key findings relate that "the implementation of the IFQ Program does seem to have altered the relationships between vessel owners and processors with respect to bargaining power and led to the exodus of many previous processors from processing IFQ species."

- Relatedly, in the section on 'objectives that the program may not be meeting' (p. 374), the review states: "By providing exclusive harvesting privileges to vessel owners only, the program prompted change in the business relationships that had existed prior to the program between vessel owners, crew, and processors and shifted the balance of powers toward vessel owners and QS holders. The program likely resulted in the loss of crew jobs and the exodus of processors."

- It is also important to recognize that fleets changed even if landings stabilized in a community over time. Communities like King Cove, for example, show not only a reduction in halibut landings, but those landings are no longer predominantly made by a resident, homeported fleet due to reduced QS holdings by community residents. This is directly related to objective #5 'to maintain existing business relationships among harvesters, processors, crew.'

- The review appears to weigh heavily that the processors that still remain from pre-IFQ days process a higher percentage than they comprise (i.e., in 2015, pre-IFQ processors made up 15% of all processors processing halibut, but accounted for 31% of halibut volume, p. 171). One could also relate the impacts such that pre-IFQ processors used to process 100% of the halibut, now, as a smaller component of the sector, they process 31%.

- The review could be improved by strengthening the section on impacts to processors relative to surplus ice and freezing capacity as a result of the change in temporal distribution of the halibut fishery and changing markets, much of which was not able to be shifted to other fisheries.

- Relative to community impacts, Figures 2.7-5 through 2.7-8 show trends in the percent of IFQ landed pounds in Alaska for urban and rural communities. Rural communities are defined as those with fewer than 2,500 people that are not within a pre-defined radius of an urbanized center. Because some communities fell above or below the 2,500 threshold within the defined time period, it masks some of the trends relative to the loss of access in rural communities, as communities were in and out of the 'rural' category in different years. The review makes several caveats in this regard in the text that are not repeated in the key findings. The Council would be better served by defining rural communities for the purpose of the review at the outset and keeping the communities in each rural/urban designation constant over time.

- Relatedly, because the Council previously defined small rural communities under the Community Quota Entity (CQE) Program in the GOA as those coastal communities without road access and with populations of less than 1,500, and has reviewed multiple analyses using these criteria, this is a more familiar and appropriate set of criteria by which to continue to show these trends (as opposed to the criteria listed in the above bullet). Section 2.7.5.3 lists CQE community holdings but does not provide the same types of figures as presented in 2.7-5 through 2.7-8, which is an important comparison. Adding these data would better highlight for the Council changes in access over time, an issue of continued importance to the Council, and confirm via the data a much more significant trend in the loss of QS in small, rural communities. Note that while the key findings in Section 3.1.1. do not include trends relative to the smallest, rural communities, the issue is mentioned relative to 'objectives that the program may not be meeting' (p. 374).

In sum, the review does not sufficiently evaluate the distributional effects of the program relative to communities and processors, when the data indicate meaningful impacts that the Council can either work to address or serve to learn from in future programs. If the Council intends to revise the draft document, please consider our suggestions to improve a future version. Again, we appreciate the opportunity to comment, and the ability of the analyst to include both quantitative and qualitative data to round out the review.

Sincerely,

Glenn Reed, President