

Addendum to C-3: Corrections and Points of Clarification on Area 4 IFQ Leasing January 25, 2017

Use of hired masters under status quo

It is important to note that under the status quo, except for A Class QS, those QS holders who are eligible to use a hired master (i.e. initial issuees and non-individual entities) must also demonstrate a 20% interest in the vessel that is landing the IFQ. CDQ resident participants, the intended beneficiaries of the proposed action, are likely to own their own vessels (some CDQ groups require this to be the case in order to be eligible to use CDQ without being charged a lease rate). Moreover, unless the CDQ resident holds QS themselves, a QS holder is unlikely to have equity in a CDQ resident's vessel. Therefore, under status quo, CDQ group residents are unlikely to be eligible to operate as a hired master, even though there are still QS holders that are eligible to use a hired master (see hired master use in Figure 9).

Caveat for Figure 8 (p 33): Harvest by “walk-on” QS holders (i.e. people harvesting their IFQ on someone else's boat)

The intention of Figure 8 (on page 33) was to address the question of "how much halibut IFQ is being fished by walk-ons in Areas 4B, 4C, and 4D?" (or conversely: what percent of people harvest their own IFQ on their own vessel?).

Figure 8 demonstrates the 'percent of IFQ permit holders that have direct ownership in the vessel landing their IFQ'. An IFQ permit holder is generally the same person as the QS holder – with the expectation of the rare cases in which the IFQ is being leased (e.g. temporary medical leases, CQE, etc), in which case the leaser becomes the IFQ permits holder. Note that when a QS holder is using a hired master, in contrast to leasing, the IFQ permit would still be issued in the name of the QS holder. Also, it is important to remember that for use of a hired master, catcher vessel QS holders must have at least 20% equity in the vessel. Thus, situations where a hired master is used should never be considered a “walk-on” by our definition.

For example, in Figure 8, the 21% for Area 4B in 2015 should represent situations where the QS holder and vessel owner are the same (except for some leasing scenarios). And the inverse of this (the 79%) should represent walk-on situations, because here the permit holder and the vessel owners do not match.

Unfortunately, there are some limitations in available vessel ownership data. These data tell us everyone who is a direct owner of a vessel (even if it is just 1%), but we do not have complete data on *indirect* ownership of a vessel. 'Indirect ownership' here refers to ownership through an entity (e.g., a corporation or an LLC). NMFS has these records in the case of hired master arrangements, because these participants are required to demonstrate vessel ownership, but not necessarily in other situations. At the very least, Figure 8 should have percentages at least as high as those demonstrated in Figure 9, as hired master use should all fall into the category of “harvesting their own IFQ on their own vessel” given the vessel ownership requirements. However, we have no other basis to benchmark what we are missing in terms of indirect vessel ownership.

What we can say about walk-on activity is that it has occurred in all Areas 4B, 4C, and 4D. This behavior likely increases with increased costs of production and declining halibut catch limits. Under these conditions fishery participants will have more incentive to seek out ways to increase the efficiency of their operations, coordinate with others and share variable costs in order to maintain profitability.

Applicability of Class A shares to the current proposal

While the majority of the current proposal does not apply to Class A QS, as this category of QS already has the flexibility to be leased to whomever, the current proposal would allow for some increased flexibility, compare the current use of A shares, through the adoption of Alternative 2 Option 2. Specifically, this option would allow Area 4D QS to be leased to CDQ groups and used by participants in Area 4E. Class A QS for Area 4D cannot be harvested in Area 4E under the status quo. The Council should make it clear whether or not this package (including Alternative 2, Option 2) would apply to A Class QS. If so, there would be the assumption that all of the other adopted provisions also apply to A Class QS. For example, if the Council adopts Alternative 2, Option 3, Sub-option 3, those who acquired A Class QS would need to wait five years before being eligible to lease it. As demonstrated below, three of the CDQ groups hold Area 4D A Class QS, thus, if the current proposal is applicable to A Class QS this expanded flexibility might be used by CDQ groups to lease their own Area 4D Class A IFQ to a resident small-vessel fleet located in Area 4E.

Table 1. CDQ group holdings of halibut Class A QS, 2016

CDQ Group		2C	3A	3B	4A	4B	4D
APICDA	QS units	3,067	51,618	2,766	2,669	2,368	213,044
	% of all Area QS pool	0.01%	0.03%	0.01%	0.02%	0.03%	4.30%
BBEDC	QS units		709,914	304,803		370,314	122,473
	% of all Area QS pool		0.38%	0.56%		3.99%	2.47%
NSEDC	QS units			148,216			
	% of all Area QS pool			0.27%			
YDFDA	QS units				190,598	55,927	55,528
	% of all Area QS pool				1.31%	0.60%	1.12%

Source: NMFS RAM Division

Corrections for tables under Option 3: Cooling off period

Tables 12, 13, 14, and 15 (page 52 and 53) demonstrate characteristics of QS transfers (i.e. the number, max QS transferred, median QS transferred, and total QS transferred) for Area 4B, 4C, and 4D. However, these tables did not include the full sample of transfers and percentages are therefore lower than they should be. The following tables are corrections to tables in the document.

A caveat to these tables still applies, that they may over-estimate the amount of QS that was transferred, as they are calculated as the total QS transfer divided by the total QS pool. In other words, these statistics may double-count QS that has changed hands more than once.

Revised Table 12. Area 4B QS transfers, 2000 through 2016

Year	Number of transfers	Max transfer (% of pool)	Median transfer (% of pool)	Total transfers (% of QS pool)
2000	50	2%	0%	21%
2001	34	2%	0%	14%
2002	17	2%	0%	7%
2003	28	2%	0%	15%
2004	15	3%	1%	14%
2005	13	3%	0%	8%
2006	12	2%	0%	6%
2007	21	3%	0%	13%
2008	32	2%	0%	12%
2009	22	2%	0%	13%
2010	11	2%	0%	6%
2011	30	2%	0%	15%
2012	17	2%	0%	7%
2013	14	2%	1%	4%
2014	29	3%	0%	13%
2015	25	2%	0%	5%
2016	26	1%	0%	4%

Source: NMFS RAM QS/IFQ transfer data sourced through AKFIN

Revised Table 13. Area 4B QS transfers, 2000 through 2016

Year	Number of transfers	Max transfer (% of pool)	Median transfer (% of pool)	Total transfers (% of QS pool)
2000	11	1%	0%	6%
2001	15	5%	1%	18%
2002	0	0%	0%	0%
2003	5	3%	3%	12%
2004	8	3%	1%	9%
2005	9	3%	1%	11%
2006	1	1%	1%	1%
2007	14	2%	1%	10%
2008	13	3%	1%	12%
2009	13	4%	1%	14%
2010	10	4%	1%	9%
2011	21	4%	1%	14%
2012	5	1%	1%	1%
2013	10	4%	1%	7%
2014	9	2%	1%	7%
2015	10	3%	1%	14%
2016	5	1%	1%	3%

Source: NMFS RAM QS/IFQ transfer data sourced through AKFIN

Revised Table 14. Area 4B QS transfers, 2000 through 2016

Year	Number of transfers	Max transfer (% of pool)	Median transfer (% of pool)	Total transfers (% of QS pool)
2000	16	2%	1%	15%
2001	17	2%	1%	17%
2002	19	4%	1%	20%
2003	12	2%	1%	12%
2004	3	4%	2%	7%
2005	5	1%	0%	2%
2006	0	0%	0%	0%
2007	10	2%	1%	10%
2008	4	0%	0%	1%
2009	3	0%	1%	1%
2010	8	2%	1%	8%
2011	13	5%	1%	19%
2012	2	2%	2%	2%
2013	5	6%	1%	6%
2014	7	1%	1%	3%
2015	14	6%	1%	16%
2016	4	1%	1%	2%

Source: NMFS RAM QS/IFQ transfer data sourced through AKFIN

Revised Table 15. Percent of QS pool transferred in 5-year increments, Area 4B, 4C, and 4D

5-year range	4B	4C	4D
2000-2004	71.2%	44.5%	71.1%
2005-2009	52.3%	47.7%	14.0%
2010-2014	44.4%	36.8%	37.8%

Source: NMFS RAM QS/IFQ transfer data sourced through AKFIN