

**Halibut Allocation between Charter and Commercial Fishery Sectors in Areas 2C and 3A**  
**COMMITTEE DRAFT Discussion Paper**  
**February 2007**

At its December 2006 meeting, the Council requested a discussion paper for the April 2007 Council meeting, which would **examine the effects of establishing a stand-alone allocation for the charter halibut fisheries** in IPHC Area 2C (Southeast Alaska) and Area 3A (Southcentral Alaska) prior to implementation of a permanent solution (Appendix 1). A “permanent” allocation (hard cap) between the charter and commercial halibut fishery sectors would replace the current guideline harvest levels (GHLs) in Area 2C (1.432 M lb) and Area 3A (3.65 M lb). Seven proposed options for setting an allocation between the sectors, which were adopted for the Council based on recommendations of its Charter Halibut Stakeholder Committee, are listed below. If a separate analysis to set an allocation for the charter sector is initiated by the Council, it should also decide *whether to address all aspects of the proposed allocation alternative* (overage/underage allowances and five proposed mechanisms to increase the allocation in each area) or limit the analysis to the allocation and the overage/underage allowances<sup>1</sup>.

<b>Allocation to the charter halibut sector</b>			
<b>Option 1. Fixed Percentage</b> of combined commercial/charter catch limit:			
	<u>formula</u>	<u>Area 2C</u>	<u>Area 3A</u>
a.	125% of average harvest of 2000-2004, translated to percentage	16%	16%
b.	equal to the 1995-99 GHL, translated to percentage	13%	14%
c.	percentage of combined 2004 commercial/charter catch	15%	13%
d.	convert current GHL into percentage based on 2004	12%	13%
e.	equal to 2005 charter harvest, translated to a percentage	16%	13%
<b>Option 2. Fixed Pounds</b>			
	<u>formula</u>	<u>Area 2C</u>	<u>Area 3A</u>
a.	date GHL to 2000-2004	1.7 Mlb	4.0 Mlb
b.	equal to the 1995-1999 GHL	1.4 Mlb	3.7 Mlb
	Suboption 1. Without step up/down		
	Suboption 2. With stair step up/down provisions . . .		
Suboption. Suballocate between subareas. (placeholder for State of Alaska recommendations)			

The request for additional discussion arose because the Council adopted the recommendation of its Committee in early 2006 and incorporated the allocation decision point along with the rest of the permanent solution. This decision was intended to schedule a decision on a permanent solution as soon as possible. The Council determined that a separate allocation decision to address the current issues associated with the GHL would increase the level of uncertainty for charter businesses and inhibit their long-term strategic and business planning abilities.

In December 2006, however, a Council member expressed frustration at the pace of separate<sup>2</sup>, and overlapping analyses. He proposed adding an allocation option of 20% for the charter sector in each area and scheduling an analysis and decision in 2007. A number of allocation options to increase the GHL have been proposed to correct what proposers perceive as inequity in the amount of the current GHLs relative to commercial quotas.

<sup>1</sup> Staff recommends keeping the overage/underage linked to the initial determination of the allocation.

<sup>2</sup> Area 2C/3A GHL analysis rescinded in December 2006 and scheduled for initial review and final action in March and June 2007 for Area 2C only; implementation could occur for 2008 season (The Council noticed the public that it may schedule action for Area 3A GHL measures in 2007 also.)

(Moratorium) Limited Entry analysis scheduled for initial review and final action in February and March 2007; implementation could occur for 2009 season.

Permanent Solution analysis not yet scheduled for Council action, as alternatives and options are not yet finalized.

While sympathetic to the frustrations expressed on the timelines of conducting multiple analyses and implementing regulations, another Council member was concerned about establishing a hard allocation without understanding: 1) whether or not adequate tools are in place for NMFS to enforce the allocation and 2) if the enforcement of the charter sector allocation could be facilitated by management measures that reallocate fish as needed or utilize market forces in the charter industry sector. The overriding concern is that a situation could occur in which NMFS would close the charter fishery in-season because it reached its (hard cap) allocation. *Instead*, the permanent solution couples restrictive management measures (in one of a few proposed share based systems) to the hard allocation to avoid a closure. These measures would empower the industry to maintain its harvest within its allocation and reduce the chance that management measures such as the 1-fish bag limit or in-season closure are implemented to reduce harvest. The industry is also exploring alternative funding mechanisms to allow the purchase of QS that would be held by the State and reallocated to the charter sector and/or leasing of commercial QS by the State, non-profit entities, or individuals for in-season reallocation of the commercial allocation to the charter sector (Appendix 1).

This paper identifies the *trade-offs* between setting an allocation as a stand-alone decision or as part of the permanent solution. However, the Council could initiate an amendment to revise the GHL (i.e., increase it) as a stop-gap measure to address GHL overages. The issues are explored in more detail below.

#### Under a **stand-alone allocation decision**:

##### **Pros:**

- 1) The charter industry faces the potential that the Council would select an allocation for the charter sector that is **higher than the current GHL**, but this is not guaranteed.
- 2) Any future Council analysis would have the benefit of **examining the effects against *only* the allocation preferred alternative** of all remaining program features.
- 3) Would allow for the **development of Area 2C and Area 3A catch sharing plans** that could provide a formal procedure for determining necessary management measures each year, which are tied to the amount of the allocations. More detail on the Area 2A catch sharing plan (CSP) is provided in Appendix 2 (**incomplete**). The process for setting the 12 percent total sport allocation in Canada is described in Appendix 3 (Case Study #3 in Gislason 2006).

##### **Cons:**

- 1) A “hard” allocation assumes that NMFS will manage the fishery to not exceed that limit. The charter industry could be faced with an **in-season closure**, if current management (GHL) measures are insufficient to restrict harvests to the allocation.
- 2) As the fishery progresses, reliance on **in-season reporting of ADF&G logbooks** is critical to enforcing the allocations. Inseason catch accounting would be required at the time the final rule became effective. It is unclear whether these data issues between the State and Federal governments will be resolved by that time.
- 3) If current (GHL) measures are not sufficient to manage to the allocation, then additional measures will be required by NMFS before implementing the allocation; such measures are fraught with the **same imprecision as under the GHL program**.
- 4) Staff effort would be **redirected away from the permanent solution and delay its implementation** (the Council purposefully decided to bypass a separate allocation decision to “fix the GHL to get to a share-based system).
- 5) Separating the allocation decision point into its own analysis and rulemaking would delay implementation of the permanent solution. Note that while the Council can take action to select preferred alternatives in different charter halibut analytical packages sequentially, bottlenecks at NMFS occur because the same NOAA Enforcement, NMFS Sustainable Fisheries, NMFS Restricted Access Management Division, NMFS Economic Review, and NOAA General Counsel staff would be assigned to all charter halibut management amendments. Stacking up decisions at the Region, could jeopardize some or all of the proposed charter halibut implementation timelines.

**Observations:**

- 1) Harvests would be tracked using the State of Alaska's revised Sport Charter Vessel Logbook Program. By the time such an allocation would be tracked, the logbook would have been in place for at least three years and should be vetted by State statisticians against the Statewide Harvest Survey, the database upon which the GHGs were selected.
- 2) Depending on the magnitude of the GHG change (if one is selected), less restrictive (or no) measures may be placed on the charter fishery while commercial quota share may be reduced to accommodate the increased sport harvest. This is only a temporary solution until a permanent solution is achieved

APPENDIX 1.

NORTH PACIFIC FISHERY MANAGEMENT COUNCIL  
ALLOCATION/SHARE-BASED ALTERNATIVES AND OPTIONS  
DECEMBER 12, 2006  
REVISED

ALTERNATIVE 1. NO ACTION

ALTERNATIVE 2. ALLOCATION TO THE CHARTER HALIBUT SECTOR

Issue 1. Allocation

Option 1. Fixed Percentage of combined commercial/charter catch limit:

formula	Area 2C	Area 3A
a. 125% of average harvest of 2000-2004, translated to percentage	16%	16%
b. equal to the 1995-99 GHY, translated to percentage	13%	14%
c. percentage of combined 2004 commercial/charter catch	15%	13%
d. convert current GHY into percentage based on 2004	12%	13%
e. equal to 2005 charter harvest, translated to a percentage	16%	13%

Option 2. Fixed Pounds

formula	Area 2C	Area 3A
a. update GHY to 2000-2004	1.7 Mlb	4.0 Mlb
b. equal to the 1995-1999 GHY	1.4 Mlb	3.7 Mlb
Suboption 1. Without step up/down		
Suboption 2. With stair step up/down provisions if changed by 5, 10, or 15% of the base years (selected above) of the initial allocation (i.e., if the halibut stock were to change from 15 to 24 percent from its average CEY, then the allocation would be changed by 15 percent. If the stock abundance were to change at least 25 to 34 percent, then the allocation would change by an additional 10 percent. If it continued to change by at least 10 percent increments, the allocation would change by an additional 10 percent.)		

Suboption. Suballocate between subareas.<sup>3</sup>  
(placeholder for State of Alaska recommendations)

Issue 2. Overage/Underage

- Option 1. allow overages/underages to be transferred across sectors
- Option 2. 3 or 5 year rolling average of catch to determine if overage/underage occurred in latest year
- Option 3.  $\pm$  5 or 10% overage/underage results in no management response and  $>$ 5 or 10% overage/underage leads to change in measures

Issue 3. Mechanisms to increase charter sector harvest with compensation to the commercial sector; increased fishing opportunity to recreational anglers as demand grows; opportunity for charter sector growth in areas that are currently underdeveloped; and maintain stability in coastal communities.

- Option 1. Allow the state to hold commercial QS/IFQ and transfer the poundage/percentage to the charter sector
  - Suboption 1. By purchase of commercial quota share (permanent)
  - Suboption 2. By lease of commercial IFQs (annual)

<sup>3</sup> Develop local area management plans (LAMPs) on a separate timeline.

Option 2. Allow use of commercial QS in the charter sector through permanent transfer (converted to fish) by purchase or conversion between individual commercial QS holders and the charter sector

Eligibility

Suboption 1. Must hold a halibut charter limited entry permit to use commercial halibut QS in the charter fishery

Suboption 2. Must hold a halibut charter limited entry permit and a commercial transfer eligibility certificate to use commercial halibut QS in the charter fishery

Permanent Transferability (Sale)

- Commercial QS is fully transferable across sectors and retains original class designations
- Allow commercial blocks to be split to transfer smaller pieces to the charter sector.
- Split blocks retain original block designations
- Allow transfer of any (A, B, C, or D) vessel class QS for use in charter sector
- Charter business may not hold more than 1 block of Class D QS  $\geq$  sweep-up level

Option 3a. Allow use of commercial IFQ in the charter sector through temporary leasing (converted to fish)

- < 10 percent of a commercial QS holder's IFQ may be annually leased to charter sector between private individuals
- Allow commercial blocks to be split to transfer smaller pieces to the charter sector.

Suboption 1. Must hold a halibut charter limited entry permit to use commercial halibut IFQ in the charter fishery

Suboption 2. Must hold a halibut charter limited entry permit and a commercial transfer eligibility certificate to use commercial halibut IFQ in the charter fishery

Option 3b. Allow commercial QS holders to annually lease their 10 percent underage of commercial IFQ (converted to fish) to increase the charter sector allocation. IFQ would be held by a regional charter association, with administration and collection of fees by the State of Alaska.

Option 4. Allow charter halibut limited entry permit holders to convert their permits into increased allocation at initial issuance

Suboption 1. Each charter halibut permit is equal to percentage of charter sector allocation based on total number of charter permits (equal shares)

Suboption 2. Each charter halibut permit is equal to percentage of charter sector allocation based on class or other designation of limited entry permit

**ALTERNATIVE 3. LIMITED ENTRY PROGRAM<sup>4</sup> with PERMIT ENDORSEMENTS  
(Moratorium) Limited Entry Permit would continue, with some proposed changes**

**Issue 1. Permits** must be renewed annually<sup>5</sup>

**Issue 2. Permit endorsements**

Option 1. No permit classes

Option 2. Permit class

Class A. Immediately transferable if more than or equal to a) 10; b) 30; or c) 50 days each year

Class B. Non-transferable if less than or equal to preferred alternative above [a) 10; b) 30; or c) 50 days] (except to underdeveloped communities under Issue 13)

Suboption. By port/subarea (placeholder for State of Alaska)

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<sup>4</sup> Military (Morale, Welfare, and Recreational) boats are exempted from QS program. They could be issued limited entry exemption permits

<sup>5</sup> Permits could not be renewed if allowed to lapse (due to holder's inaction to renew or because minimum activity was not met)

**Issue 3. Permit share-based assignment based on Client-days<sup>6</sup>**

Initial issuance - award number of client day units from ADF&G logbooks which correspond to:

Suboption 1. Total client-days during 1998-2005

Suboption 2. Average client-days during best 3 years from 1998 – 2005

Suboption 3. Total client-days during best 3 years from 1998 – 2005

Endorsement leases

Suboption 1. Allow transfers, limited to client day endorsement caps

Suboption 2. Allow unlimited transfers

Transfers

Suboption 1. Client days not transferable

Suboption 2. Client days fully transferable:

1. Permanent: must go through NMFS (RAM division)

2. In-season transfers: allowed between charter businesses

**Issue 4. Permit Leases** (in-season only; reverts to permit holder at beginning of next season)

Option 1. not allowed, except for “unavoidable circumstance”

Option 2. allowed, limited to use cap

**Issue 5. Permit use caps, individually and collectively, with grandfather provision**

*Same as under I program and ½ percent of revised Issue 3. Shared-based assignments*

**PLACEHOLDER FOR ENDORSEMENTS ON PERMITS HELD BY COMMUNITIES**

**ALTERNATIVE 4. INCLUDE THE CHARTER SECTOR IN THE HALIBUT IFQ PROGRAM**

**Issue 1. QS recipients** - Issued to (moratorium) limited entry permit holders only

**Issue 2. Initial Distribution of QS:**

Option 1. Individual allocations shall be divided between two “pools” of recipients. The intent is that once the quota shares are determined for the recipients in “Pool 1” (1998 through 2001 “Pool 1”) those shares are proportionately applied to the initial allocation amount for each area. The remainder of the allocation goes into “Pool 2” for recent participants.

Pool 1 (“Seniority”): Businesses qualified with 1998 through 2001 logbook catch history AND must have business participation in 2005 (or most current year) AND meet the legal qualifying criteria. Individual business owners would be issued QS based on their average effort reported in the ADF&G logbook for 1998 through 2001 for pool 1 (exclude years when not active (do not average 0 years))

Pool 2 (“Recency”): Active businesses (submitted at least one logbook that reported groundfish fishing days) between 2002 and 2005 AND whose business participated in 2005 AND met the legal qualifying criteria.

Suboption 1. A recipient receives 25% of one potential share of this pool for each year of participation during 2002-2005 (four years). For example, a business with participation in all four years would receive a full share (100%). A business with participation in three years would receive 75% of a full share, etc.

Suboption 2. Use client/rod days for days fished to reward client effort (6 client rod days v 1 day for the same fishing trip). (Rods(or number of clients logged in, if rods not filled out), (A year with no effort counts as “0”) Skipper fish counts toward denominator, but not for numerator for QS and not against IFQs) This might need more explanation if left in without further details or use as a note for yourself on our intent.

<sup>6</sup> Permit endorsement of an angler day for every client fishing bottomfish/halibut in a day

Option 2. Businesses qualified with 1998 through 2005 logbook catch history AND must have business participation in 2005 (or most current year) AND meet the legal qualifying criteria. Individuals will pick their best three years during 1998 and 2005 (include "0" for years less than 3) and average their total number of client/rod days for those three years. (groundfish where halibut not available)

### **Issue 3. Transfer of QS:**

#### **Permanent QS transfers**

1. Initially issued QS to the charter sector is fully transferable within the charter sector.
2. QS from the commercial sector purchased by charter operators is fully transferable (two-way) across sectors and retains original designations.
3. QS issued to charter sector is non-transferable to the commercial sector
4. IFQs used in charter sector may/not be leased within the sector
5. IFQs from the commercial sector transferred for use in the charter sector could be leased to either sector

#### **Temporary transfers (IN-SEASON IFQ lease):**

1. [0, 20, 40, 60, 80, 100%] of a charter operators annual IFQ is leasable within the charter sector for no more than 2 out of 5 years of the program.
2. Leasing is defined as the use of IFQ on a charter vessel on which the owner of the QS has less than a 50% ownership interest.
3. a maximum of 30% of a charter operator's annual IFQ may be leased; up to 10% may be leased to commercial sector after August 15; up to 30% may be leased to charter sector. (allows mop-up by either sector)

**Block restrictions** - allow splitting of commercial blocks to transfer a smaller piece to the charter sector - split blocks retain original designations.

**Vessel class restrictions** - from A, B, C, and/or D commercial vessel category sizes to charter sector, except that no charter business may hold more than 1 "D" category block equal to or above the sweep-up level.

### **Issue 4. To receive halibut QS and IFQ by transfer:**

For the charter sector, must be a permit holder or sign affidavit attesting that all legal requirements were met to participate in the charter fishery.

For the commercial sector, must have a commercial transfer eligibility certificate<sup>7</sup>.

### **Issue 5. Caps**

1. use cap for charter QS holders only of 1 percent of combined charter and commercial QS units in Area 2C and ½ percent of combined QS units in Area 3A (for all entities, individually and collectively) and grandfather initial issuees at their initial allocation.
2. use caps for charter QS holders only of ½ percent of combined charter and commercial QS units for combined Areas 2C and 3A (for all entities, individually and collectively) and grandfather initial recipients at their initial allocation

### **Issue 6. Miscellaneous provisions**

- A one-year delay between initial issuance of QS and fishing IFQs to allow reaction to initial issuance to match clients to QS prior to first season under program.
- Halibut harvested aboard a charter vessel continues to be the property of the angler who caught the halibut provided the charter owner possesses sufficient IFQ.

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<sup>7</sup> All commercial rules apply to any provision that may permit the use of commercial QS/IFQ for commercial purposes by any entity in the Charter IFQ sector

**Issue 7.** IFQs associated with the charter quota shares would be issued in numbers of fish based on 5-year rolling average determined by ADF&G).

**Issue 8. Reporting:**

Placeholder for NOAA Fisheries Service

**Issue 9. Community set-aside**

**COMMITTEE DEFERRED ACTION**

- a. Set aside 1% of the combined commercial and charter halibut quota to communities with ¼ percent annual increases if utilized, to a maximum of 2 percent.
- b. Source of the set-aside: Equal pounds from the commercial and charter sectors.  
Option : proportional to split between sectors
- c. Sunset provisions: 10 years (starting in the first year of issuance). Persons currently participating in the set-aside program at the time of sunset would be allowed to operate within the guidelines of the program.

**APPENDIX**

**Mechanisms to finance compensated reallocation to the current charter sector to allow for growth**

- Option 1. State charter stamp
- Option 2. Allow private entities to purchase commercial QS/IFQ through fundraising, grants, donations, etc.) and convert to charter allocation; lease back unused allocation at end of year (part of KACO plan)
- Option 3. Business Improvement District (tax on trips dedicated to certain purpose)
- Option 4. Funds from compensated transfer of unused charter allocation back to commercial sector
- Option 5. Allow State to hold IFQs in trust through State bonds (similar to bonds issued recently for construction of State hatchery)
- Option 6. Federal funding/grants/stamp to fund entities to purchase QS and convert to charter allocation

## APPENDIX 2.

### FUNDING MECHANISMS FOR PURCHASING/LEASING COMMERCIAL QUOTA SHARES

In December, a discussion paper on key aspects of the permanent solution was reviewed by the Council (King 2006). These key aspects included: 1) data quality; 2) **sector allocation formulas**; 3) **sub-area allocations**; 4) **finance mechanisms for a compensated transfer**; 5) Permit classes; and 6) share-based permit systems. The following discussion contains the conclusions in that paper for items #2, #3, and #4.

**Sector Allocation Formulas** contained within the Council's draft alternatives for a permanent solution proposes to set charter sector allocations based on two main options: a fixed percentage or a fixed amount in pounds. There are six options currently under consideration, of which four are fixed percentage options and two are fixed pound options, with the potential for step-up or step-down provisions of those "fixed" allocations based on halibut biomass. The paper concluded the following.

- Setting the allocation as a fixed percentage would more directly respond to changes in biomass and IPHC CEY allocations more than fixed pounds.
- Some options will allocate more halibut to the charter sector than the sector harvested in 2004. Thus, the Council should consider how this additional halibut could best benefit the charter and commercial sector *if* the charter sector is unable to fully use its allocated halibut in the program's initial years. A fixed percentage also could provide more halibut than the charter sector can reasonably use during times of increasing biomass. An in-season lease mechanism could help ensure that both the charter fleet and the commercial sector benefit from any unused charter allocation.
- An inter-sector exchange mechanism could also buffer the charter sector in times of falling biomass if the sector could enter the market for commercial QS.
- An in-season lease mechanism may need to rely on in-season harvest estimates from the ADF&G logbook in order to determine whether the charter fleet had excess halibut. The previous system of estimating harvests from the Statewide Harvest Survey (SWHS) provides estimates months after the end of the calendar year; a statistical comparison by Alaska Department Fish & Game (ADF&G) Research and Technical Support staff is needed to corroborate the new logbook system with the SWHS. Thus, the previous system would be unable to provide timely enough estimates to manage in-season, inter-sector leasing. Alternatively, charter representatives could recommend an amount needed for the upcoming season before it begins. If the estimated amount is less than the allocated amount the difference could be made available/leased to the commercial sector. These funds could be set aside for future purchases of commercial QS if the charter sector outgrows its allocation.

Sub-Area Allocations would subdivide the allocation set by the Council on a sub-area level. ADF&G staff has circulated data and maps, but these have not yet been endorsed by the charter halibut sector or community interests, or the agency, itself.

Area vs. Sub-Area Management In general, sub-area management will increase the burden on NMFS and ADF&G because enforcement, monitoring, and management must also occur on a sub-area level. The magnitude of the increased burden will depend on factors such as the number of sub-areas, the rules for transferring QS, the system (if any) used for financing reallocation, etc. Additionally, the process of correctly identifying sub-area's and sub-area allocations will involve tremendous pressure from stakeholder groups.

- **Unit Market Effects** – Sub-area allocations could result in management unit (unit, angler days, share-based permits) market effects depending on the rules for transfers within the charter sector. For example, one charter IFQ option would allow transfers to flow freely within the charter industry. If selected, some sub-areas could conceivably watch their sub-allocation transfer to other more profitable areas where demand is higher. Sub-area transfers may encourage fishing pressure to increase in sub-areas that are

more economical to fish. This transfer to fishing effort would increase localized pressure on halibut, rockfish, and lingcod stocks, which may be of biological concern with sufficient fishing pressure. On the other hand, restricting units from sub-area transfers could also have effects. For example, if transfer is restricted to the sub-area to which it is allocated, this requirement could restrict area growth because faster growing areas might not be able to acquire units from sub-areas with excess units. Additionally, such a structure could lead to inefficient market conditions and liquidity problems if there are too few purchasers and sellers within a sub-area to support a healthy market. Obviously, larger sub-areas with many market participants would alleviate this problem.

- **Ports vs. Fishing Areas: Sub-Areas Definitions** – In some locations, operators from different ports fish in the same areas. Thus, whether a sub-area is defined around a port or around a fishing area will have important implications. For example, operators from both Whittier and Seward use the area around Montague Island as well as areas closer to their home ports. If the sub-areas are designated by port then harvest will have to be tracked by port. Assigning fishing areas to ports could be difficult. For example, assigning Montague Island in Prince William Sound to operators from one port, but not another would have negative economic effects for the dispossessed fleet members' homeport. However, defining sub-areas around specific fishing grounds would deny operators the flexibility of going to other areas when halibut is scarce in the traditional region or when the weather is bad. Thus, restricting operators to one sub-area could have significant business effects on operators who use a variety of fishing areas or who work long-range/multi-day trips that cross multiple sub-areas. This problem could be solved if the sub-areas were based on geographic areas and not on home ports, and operators are allowed to hold QS in multiple areas.
- **Sub-Area Growth Rates** – Sub-area allocations can be tailored to their specific growth rates without changing the total area-wide allocation. For example, Kodiak is often discussed as a community with a still-developing charter industry, while Seward and Homer are considered more mature and well-established. One possible aspect of a sub-area allocation scheme is that the Kodiak sub-area could be allocated more shares than more mature markets. This approach would assist the growth in Kodiak. However, under an allocation scheme which was "area neutral" the increase in allocation to Kodiak would be balanced by a lower allocation. On the other hand, a sub-area allocation could also protect areas with lower growth rates. Without sub-area allocations, areas that have stable growth rates would suffer the same as those with higher growth rates. Thus, sub-area allocations will set communities in direct competition with each other for allocated quota. The halibut pie is only so big and changing the way the pie is sliced means that some stakeholders benefit while others lose. Accounting for sub-area growth rates may only be valid in the short-run until the industry grows to fill its "growth allocation" (Gasper, 2006).

**Finance Mechanisms** A variety of proposed finance mechanisms has been recommended for review by the Charter Halibut Stakeholder Committee. Some were moved to an appendix because they would not be implemented in regulation, and are therefore not subject to an EA/RIR/IRFA. But they could be developed in tandem with the Council's program. Some options represent incomplete financing mechanisms that could be combined with other options to create a more complete mechanism. For example, one option calls for IFQs to be held in trust by the State of Alaska, and financed by state revenue bonds. However, bonds are debt instruments and are repaid through revenue streams. Thus, it is incomplete to talk about bond financing without talking about revenue streams. On the other hand, a proposed state charter stamp provides a revenue stream, but doesn't suggest whether this revenue stream will be used to pay back revenue bonds or generate funds prior to the reallocation. Additionally, the proposed option does not designate who would hold the QS. These options could be restructured as identified below:

**Option 1** – A state-run compensation mechanism using revenue bonds.

Sub-option 1- Financing through a charter halibut stamp

Sub-option 2- Financing through a charter license fee or other business tax

**Option 2** – An industry-run compensation mechanism using a per-customer, self-taxing mechanism on a:

Sub-option 1- State-Level

Sub-option 2- IPHC Area Level

Sub-option 3- Sub-Area Level

Alternative 2 calls for a **compensated transfer (i.e., leasing)** of unused charter allocation back to the commercial sector. This option would add significantly to either of the options above because it would allow both the commercial and charter sectors to benefit from unused charter allocation. This arrangement allows the sectors access to the natural advantages of a functioning marketplace without unnaturally preventing the flow of unused charter allocation to businesses that could take full advantage of the allocation. Transferable share-based systems also allow members to access the efficiency gains generated by functioning markets much more readily than “fixed” allocation and management measures. Compensated transfers and harvest of unused charter allocations would have to occur in the same commercial halibut season. Thus, a decision-making mechanism must be developed to determine when charter allocation will go unused and then authorize/document that transfer from one party to another. One mechanism would be for charter representatives to recommend, prior to the beginning of a season, whether and how much allocated halibut should be leased back to the commercial sector. However, under this method of pre-season decision making an additional mechanism would likely need to exist to ensure that the sum of the sector’s pre-season lease amounts and in-season harvest did not exceed overall allocation amount.

## APPENDIX 2. Area 2A Catch Sharing Plan

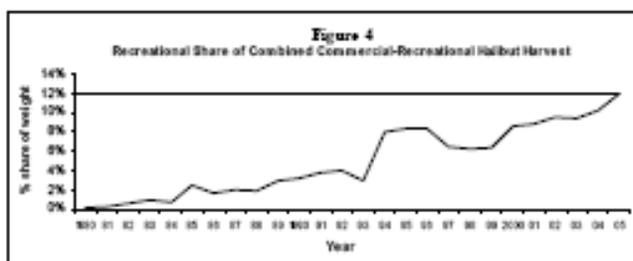
To be completed

## APPENDIX 3. Gislason excerpt

### “CASE STUDY #3 – HALIBUT

There are 50+ groundfish species caught by commercial and sport fishermen – a variety of soles, cod, rockfish, pollock, halibut, sablefish, etc. The main species of common interest to commercial and sport sectors are halibut, a variety of rockfishes, and lingcod. This section focuses on recreational vs commercial allocation of halibut and the innovative allocation process in place today. The total TAC of halibut has been about 6,000 tonnes in recent years – worth about \$50 million CDN to commercial fishermen (\$60 million CDN at the wholesale level) plus an indeterminate amount to the recreational fishery.

### ALLOCATION PROCESS



The International Pacific Halibut Commission (IPHC) sets TACs for both the US and Canada for halibut. Prior to 2004, DFO subtracted estimates for Canadian FSC, recreational and bycatch mortality from this TAC to arrive at the commercial sector TAC for Canada. The halibut fleet of 435 licences has had an IQ management program since 1991. In 2000 DFO hired a facilitator to negotiate an allocation

agreement between recreational and commercial sector interests, an agreement that was needed since the recreational halibut catch was growing (see Figure 4 below). The process met an impasse and an independent advisor was retained (Kelleher 2002). The advisor recommended a 9% share for the recreational sector, the current (2001) level.

The Minister subsequently announced late in 2003 a 12% recreational catch ceiling, higher than the 9% level, to allow for some growth in the sports sector (Canada Fisheries & Oceans 2003). He also announced that each sector should develop a suitable market-based mechanism for future allocation adjustments between sectors, and that he would not shut down the recreational sector in-season. These features gave substantial security to both sectors. The commercial sector reports that the announcement appeared to spur a slight increase in the trading (market) value of quotas.

Economic analysis had no influence on the commercial vs recreational allocation decision. The question – is halibut worth more to the recreational or to the commercial fishery – was never asked. One could argue that the commercial salmon sector did not operate under a strong property rights regime and according the best economic value of the resource was a legitimate question in the salmon allocation debate. In contrast, the commercial halibut fishery had much stronger property rights through their IQ management regime and therefore their existing rights trumped any notion that the halibut resource should be reallocated away to another sector, regardless of its value, without compensation. That is, the strength of property/access rights within the commercial sector can affect the allocation outcome.

### PERFORMANCE REVIEW, SUSTAINABILITY & EMERGING ISSUES

DFO manages the recreational halibut fishery under the assumption that the catch in the previous year will be realized in the current year i.e., there is a one year lag in management actions. In both 2003 and 2004, the recreational sector was under their 12% allocation. Accordingly, DFO allowed the Pacific Halibut Management Association (PHMA), a nonprofit representing commercial halibut licence holders, to purchase the projected recreational surplus through a bid system to its members in 2004 and 2005. Over the two years the amount transferred was approximately 320 tonnes which generated about \$1.8 million CDN or 60%

of the \$3 million CDN landed value of the fish (the commercial sector also paid a per tonne resource royalty to the federal government plus dockside monitoring and other fees).

Since the recreational fishery sector does not have a legal entity to represent itself (the Sport Fish Advisory Board is purely “advisory”), the PHMA set up a separate trust account or endowment fund for the monies collected. The PHMA is awaiting directions from the recreational sector as to how to release the money.

The lack of a legal institutional structure for the sport fish sector is a serious impediment to effecting transfers between the two sectors. Without a legal institution, and if the sport fish sector pushes against the 12% cap, then DFO will be forced to reduce daily limits or to close selected fishing areas and times to constrain the recreational halibut catch.

This day of reckoning is at hand – the recreational sector is estimated to have caught almost exactly 12% of the total TAC in 2005. Accordingly, the 2006 recreational fishery will be managed as if the fishery will catch 12% of TAC, and there will be no surplus for sale to the commercial sector. If the recreational sector catches more than 12% of TAC in 2006, then under the current policy the recreational sector for 2007 will need to: 1) purchase quota from the commercial sector (the “market approach”), or 2) be subject to more stringent bag limits, fishing times and/or fishing areas (the “command and control approach”). But as noted earlier, the present lack of institutional structure for the recreational sector precludes the first approach. We suggest that it would be prudent for DFO to give the recreational sector one year’s notice, prior to enacting regulatory change in April 2007, in order to adjust to the proposed regulations or to suggest alternatives. This would facilitate business planning.

Some elements of the recreational sector think the halibut allocation policy should be revised or abandoned, or that the government should purchase quota from the commercial sector to transfer to the recreational sector i.e., the recreational sector should be allowed to grow with a subsidy from the public purse (Kelleher 2002).

One alternative is to increase recreational licence fees and have the extra monies dedicated to purchasing commercial quota. But the 2004 federal *User Fees Act* prescribes a cumbersome process involving notification, consultation, an independent advisory board, a performance measurement system as well as debate in Parliament to change fee levels – this process likely would take a minimum of three years.

With formal allocation naturally comes increased scrutiny of catch monitoring systems for both commercial and recreational sectors. The commercial halibut sector has one of the best catch monitoring systems in the world with mandatory hail in, hail out of fishing trips, 100% Dockside Monitoring, tagging of all fish landed, and starting in 2006 observers and/or video cameras on all vessels. In contrast, the recreational fishery monitoring program consists of a variety of adhoc creel census, lodge and charter logbooks, and other programs – the recreational sector needs to improve its catch monitoring program substantially.

Many segments of the recreational sector agree and point to increased licence fees dedicated to catch monitoring as a natural way to address this issue - but again the provisions of the federal *User Fees Act* make this option difficult to implement. But apparently active investigation of this and other user pay options are underway.

The fact that now both commercial and recreational sectors are fishing to a prescribed TAC has enhanced sustainability of the resource, and the users dependent on it (see discussion of commercial sector benefits in Gislason 1999). Unlike the salmon situation, the halibut resource and its aggregate TAC does not fluctuate widely from year to year. Therefore it is feasible for the recreational sector to fish to a formal TAC and not incur mid-season closures or dramatic year-to-year regulatory changes. The transfer mechanism inherent in the halibut allocation policy allows for an orderly transfer from one sector to another.

In summary the intersectoral allocation process for halibut is innovative and unique in Canada, and perhaps in the world, as it involves both necessary conditions for efficiency, namely well-defined initial allocations and the ability to transfer these allocations. However, it is premature to ascertain whether or not this allocation process is working.

How the Department of Fisheries and Oceans deals with the need for the sports sector to adhere to the 12% halibut TAC ceiling and the need for better recreational catch monitoring will test its resolve, as well as the efficacy of the halibut allocation process overall.

## **CONCLUSIONS**

The commercial vs recreational allocation question has been settled in different ways in Pacific Canada, depending on the circumstances of both the resource and the fisheries management system in place. The Canadian experience suggests several “lessons learned”.

Lesson #1: Sustainability – biological, economic, social – can be enhanced with each sector having a formal, predetermined share of the allowable catch.

Lesson #2: A transfer mechanism between commercial and recreational sectors will allow fish to go to its highest and best use – but such a possibility requires that both the commercial and recreational sectors have legal entities to represent their constituents and to effect such transfers on behalf of these constituents.

Lesson #3: Formal allocation systems put pressure on the government authority to ensure that appropriate catch monitoring systems are in place, and to enforce any caps or ceilings prescribed in the allocation formula.

Lesson #4: Perhaps the best way for either the commercial or recreational sector to assert their case for greater allocation of a public resource is to increase the value of their own fishery and/or have strong property rights within their own fishery (these two attributes are related).

Lesson #5: The commercial vs recreational allocation debate may be misdirected – there can be bigger issues constraining fishing opportunities and values such as encroachment by other users, habitat degradation and the inability to meet the needs of consumers and anglers.

These lessons are broad and may apply to many other fisheries jurisdictions as well.”

The complete paper can be found at

[http://www.fakr.noaa.gov/npfmc/current\\_issues/halibut\\_issues/stakeholder/April/CommercialRecreationalCanada.pdf](http://www.fakr.noaa.gov/npfmc/current_issues/halibut_issues/stakeholder/April/CommercialRecreationalCanada.pdf)