

Golden king crab arbitration workgroup meeting  
1201 3<sup>rd</sup> Avenue, Seattle, Washington  
North Pacific Fishery Management Council  
February 7, 2012

Participants – Larry Cotter, Duncan Fields, Joe Sullivan, Dick Tremaine, Brett Reasor, Mark JoHahnson, Mark Fina, Greg White

Public/Stakeholders – Steve Minor, Jake Jacobsen, Elizabeth Wiley, Bing Henkel, Dick Powell, Linda Kozak, Rip Carlton, Jeff Stephan, John Iani, Jill Capri, David Capri, Fritz Johnson, Andrew Richards

After introductions and review of the agenda, the committee reviewed the arbitration standard, which provides that ex vessel prices should be set to preserve the historic division of first wholesale revenues in the fishery while considering several other factors, such as crab markets, innovations, efficiency and productivity in the sectors, and the interest of maintaining healthy and stable harvesting and processing sectors. It was noted that the standard does not state how these factors should be weighted relative to the primary interest of preserving the historic division of first wholesale revenues or when it is appropriate to consider establishing a price that differs from the historic division of first wholesale revenues.

Participants suggested that the available data in the fishery may not fully and accurately reflect historic pricing for establishing the historic division of revenues as specified by the standard. The primary sources of data for establishing that division are COAR data collected by the State of Alaska and a processor survey conducted by John Sackton for the 2008 formula (see p.73 of that report). Despite their shortcomings, the group agreed that these data should be the starting point for the group's discussions concerning establishing the historic division of revenues as required by the standard. The group also agreed that other data sources (such as price information for other crab species) could be considered to supplement the information available from the primary brown king crab price sources (i.e., COAR and the Sackton survey).

Participants agreed that, prior to the next meeting, staff should distribute both of the primary data sources. In addition, participants agreed to review those source and methods of applying the standard using those data. Participants also agree to review other existing data sources and suggest any sources that might be appropriate to supplement the primary data sources for establishing the historic division of first wholesale revenues. The group also agreed that the first year formula – prepared by Northern Economics, Gunnar Knapp, Gil Sylvia, and Dan Huppert – should be considered. Staff will circulate that report with the data requested by the workgroup.

The group discussed conditions in each sector under the rationalization program. Processors suggested that processing of brown crab has not historically and does not currently stand on its own. Processing of brown crab has been supported by multispecies plants that most efficiently process the crab on the shoulders of season for other crab and groundfish. Integration with other activity has allowed processors to use existing crews reducing operating costs. Although seasons in the Western fishery were several months long prior to the rationalization program, seasons in the Eastern fishery were relatively short (particularly since the early 1990s). Under the rationalization program, deliveries have been extended over a longer period. Some processors contend that this extension has limited their ability to access certain markets, particularly the holiday season market in the late fall/early winter. These processors also are concerned that brown crab deliveries can conflict with other activities at their plants, including

pollock, cod, and opilio processing. These conflicts could limit the ability of processors to sort crab and produce higher quality products. In addition, processors suggested that quota costs have affected their bottom line under the rationalization program.

Harvesters suggested that both sectors have quota costs under the rationalization program and the arbitration program may not be equipped to address quota costs arising from individual choices and transactions. Harvesters have relied on consolidation to overcome these costs. In some cases, harvesters suggested that their flexibility to time deliveries has been limited by processing plant closures (or refusals to take brown crab deliveries during certain periods or after certain dates). Harvesters also suggested that the processing sector has likely achieved some efficiency gains through consolidation of processing at fewer plants under the program. Both sides agreed that further processing consolidation may allow for additional processor efficiency gains. Since consolidation in some locations is constrained by caps, it was suggested that removal of processing caps could be considered. Harvesters also suggested that the rise in fuel costs in the fishery have limited their gains in recent years.

Both sectors expressed concerns that the standard reduces the incentive for processors to aggressively seek the best market opportunities. This arises if the standard is interpreted to only preserve the historical division of revenues – in which case, processors must absorb all carrying and marketing costs while sharing a percentage of any gains from those expenditures with harvesters. Some participants pointed to a transaction this year that deviates from the formula established under the standard as an example of how agreeing to terms other than the formula can improve the circumstances of both sides (and improve market incentives). Participants also suggested that lengthy season agreements may affect these incentives in some cases.

Participants also discussed product market considerations under the standard. It was suggested that the market for brown crab has changed in recent years with the market becoming more closely associated with red king crab markets. This change could benefit both sectors. Some suggested that Western Aleutians crab are smaller and therefore have both a lower recovery rate and bring a lower price. These factors could be considered when applying any formula to crab sales. Some suggested that B and C share ex vessel prices provide an indicator of the value of landings in the fisheries, acknowledging that these are marginal deliveries that may justifiably bring a higher price than A share/IPQ landings that are subject to the arbitration system. It was also suggested that first wholesale prices received by the independent catcher processor in the fishery may be relevant, provided that the group considers the different circumstances of that operation, including the effects of vertical integration on the timing of activities and sales and the absence of marketing disincentives arising under the arbitration standard.

Given the circumstances in the fishery, including both operational and market circumstances, the group briefly discussed the potential that the standard application should consider factors other than the historic division of first wholesale revenues. The group also agreed that issues with respect to application of the historic division of revenues should be explored prior to considering adjustments arising from these other circumstances.

Participants agreed that West regionalization has complicated operations for both sectors and will require separate consideration of factors affecting those deliveries. Low output from other fisheries delivering to West region plants and their remote locations can limit the ability to efficiently operate in the region. In addition, transportation is costly and limited, which could limit access to certain markets. These factors

will be considered by the workgroup separately from the consideration of factors that generally arise in the fisheries.

Next meeting – 9 am, March 8<sup>th</sup>, Nordby Conference Room, Fishermen’s Terminal, Seattle

- 1) Data consideration – review data sources and possible formulations for establishing the historical division of first wholesale revenues
- 2) Review current limits on processing consolidation
- 3) Discuss factors that may be relevant under the standard

Preliminary materials for the next meeting:

Brown king crab ex vessel and first wholesale price data from COAR

Processor survey data from John Sackton’s 2008 market report and formula

Northern Economics market report and formula from the first year of the program

*Attachments available upon request from the Council office.*