Golden king crab arbitration workgroup meeting
PSPA Conference Room, Fishermen's Terminal, Seattle, Washington
North Pacific Fishery Management Council
August 7, 2012

Participants – Duncan Fields, Joe Sullivan, Dick Tremaine, Mark Fina, Greg White, Linda Kozak, Dick Powell, Garry Loncon, Mark JoHahnson, Larry Cotter, Steve Minor, Jake Jacobsen, Ted Painter, Rip Carlton

Index Price (or fixed price) arrangements and share margin arrangements

The parties generally agreed that the index price arrangements and shared margin arrangements as proposed in prior discussions could be used in negotiations of delivery terms between individual parties. The group elected not to spend additional time discussing those arrangements at the meeting, as the focus of the committee's effort is on the formula and whether a consensus could be developed to support a specific formula.

Formula

The majority of the meeting was spent discussing possible formulas, with the parties trading proposals. **Both side stressed that their proposals represented offers in the context of the committee only. The participants all agreed that any proposals should not be used in any arbitration unless agreed to by all participants in the committee. No such agreement was reached.**

The processors' last offer included arbitration system modifications, restrictions on IFQ transfers and a price formula. The committee had previously discussed many of these measures, some of which did not appear to be contested by harvesters. Processors' position was that formula modifications would address some of their issues, but that other aspects of their offer were important to resolving their concerns with the arbitration system. As a result, processors stated that the price formula offer is contingent on the acceptance of other arbitration provisions by harvesters , including a provision that would prohibit IFQ transfers among vessels within a cooperative after entry of a contract between that vessel and the IPQ holder. The processors' formula proposal is outlined in the last two pages of the NPCA submission attached.[1] That proposal provides for a percentage of first wholesale revenues to be paid to harvesters that generally decreases as first wholesale prices increase. This percentage is a flat 48.8 percent at first wholesale prices of $5 and below. From $5 to $8 the percentage decreases to 47.38 percent of the first wholesale price. These percentages are generally consistent with an offer from the harvesters at the last meeting. The processor offer differs substantively from the previous harvester proposal between $8 and $10. From $8 to $9, the percentage gradually decreases to 46.4, then increases back to 47.38 percent from $9 to $10. At prices above $10, the percentage would remain 47.38. Harvesters rejected this offer.

> Harvesters responded to the processor proposal suggesting that a variation on John Sackton's formula from this year is an acceptable formula. That variation would fix the percent at 48.51 percent of first wholesale price, for any price of $4.80 and below. From $4.90 to $9.80, the percent would decrease to 47.29, as set out in John Sackton's formula (attached). For prices above $9.80, the percent would remain 47.29.

The processors responded with a modification of their proposal, which would set the percentage at 46.69 for all prices from $8.70 to $9.30. All other prices would remain as originally proposed at the beginning of the meeting. In addition, the processors proposed for a $0.12 reduction in price for all landings in the West region. This adjustment is intended to equally share the custom processing costs.

[1] It should be noted that only the formula proposal contained in this submission was discussed by the committee at this meeting.

In addition, harvesters proposed an adjustment of the ex-vessel price for West designated WAG that is processed in the West. That price generated by applying the formula would be adjusted down by $.048 per round pound delivered. Harvesters estimated this adjustment on the following basis:

> A $0.25 per finished pound higher custom processing fee in the West region is assumed. This difference is offset $0.17 for the incremental increase in sales tax paid by harvesters (i.e., Adak sales tax is $.17 higher than Dutch Harbor per finished pound). The price adjustment increment is therefore $0.08 on a finished pound basis. Applying an assumed recover rate of 60 percent to determine the adjustment to the round pound price, results in the $0.048 adjustment. ($0.08 x .60 = $0.048.)

The meeting was adjourned when processing sector participants rejected this offer as the chair (based on the discussions) concluded that no progress beyond these two proposals would be possible and that no further meetings would be needed prior to reporting to the Council in October.

<u>Product recovery rate differential</u>
Over the course of several meetings, the two sides have discussed the possible difference in recovery rates between the Eastern fishery and Western fishery. The processors brought to the meeting annual recovery rates collected from processors in the fishery that suggest a difference in recovery rates of approximately 1.282 percent (attached). The processors contend that this difference is relevant for establishing a price differential between the East and West fisheries. Harvesters contend that the difference is subsumed in the historical price differential for landings from the two areas. Any adjustment could be incorporated by increasing the Eastern price, decreasing the Western price, or both.

<u>Committee report</u>
The participants agreed that a brief report summarizing areas of agreement and disagreement of the two sides would be useful for framing issues for Council consideration. Staff will prepare such a report for review by committee members prior to the October Council meeting.

Attachments available upon request from the Council office.