

**Halibut Charter Allocation Issues  
Discussion Paper**

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**Abstract:** This paper addresses six discussion points associated with Alternatives 2 and 3 of the North Pacific Fishery Management Council's (NPFMC) *Charter Halibut Permanent Solution Alternative and Options* as of July 2006. Staff and Stakeholder Committee members identified these issues as important and potentially complicated. The points include:

- 1) The availability and quality of charter halibut data;
- 2) Alternative 2's specific sector allocation formulas (Issue 1 within Alternative 2);
- 3) Sub-area allocations (Issue 1 of Alternative 3);
- 4) Finance mechanisms for a compensated transfer;
- 5) Permit classes (Issue 4 of Alternative 2); and
- 6) Share-based permit systems (Issue 4 of Alternative 2).



# TABLE OF CONTENTS

<b>Overview .....</b>	<b>5</b>
<b>Availability and Quality of Charter Halibut Harvest Data .....</b>	<b>11</b>
Description .....	11
Discussion .....	12
Proxy Data .....	12
Allocations per Qualifying Year .....	13
Effort-Based Transferable Seat Program (Share System) .....	14
Collect New Survey/Logbook Data .....	15
<b>Sector Allocation Formulas.....</b>	<b>17</b>
Description .....	17
Discussion .....	17
Percentage Allocations or Fixed Allocations? .....	17
Implications of Individual Options.....	18
Fixed Poundage Sub-options: Step-Up/Step-Down Functions .....	23
<b>Subarea Allocations .....</b>	<b>25</b>
Area vs. Sub-Area Management.....	25
Unit Market Effects .....	25
Ports vs. Fishing Areas: Sub-Areas Definitions .....	25
Sub-Area Growth Rates.....	26
<b>Proposed Finance Mechanisms.....</b>	<b>27</b>
Description .....	27
Discussion .....	27
State Charter Passenger Stamp.....	27
Private Entity Purchase with a Lease Back Provision.....	29
Business Improvement District (Tax on Trips for a Dedicated Purpose).....	29
Compensated Transfer of Unused Charter Allocation .....	31
State Bond Sale .....	31
Federal Funding.....	31
<b>Permit Classes .....</b>	<b>33</b>
Description .....	33
Discussion .....	33
<b>Share-Based Permit Assignment .....</b>	<b>34</b>
Description .....	34
Discussion .....	34
Option 1-Permits Based on Trips .....	34
Option 2-Rod Permit Endorsement .....	36
Option 3-Angler Days .....	39
<b>REFERENCES.....</b>	<b>42</b>
<b>LIST OF PREPARERS.....</b>	<b>43</b>
<b>Appendix A .....</b>	<b>44</b>

## LIST OF TABLES

Table 1. Issues with Methods to Award Halibut Charter Shares .....	12
Table 2. Issue 1-Charter Allocation Options and Sub-options .....	17
Table 3. Preliminary Effect of Each Alternative in 2004-Illustrative Example.....	19
Table 4. Estimated Charter Industry Harvests by Year and Millions of Pounds .....	19
Table 5. Finance Mechanisms.....	27
Table 6. Example Permit Classes.....	35
Table 7. Rod-endorsement Sub-options.....	36
Table 8. Effect of Rod Permit Sub-option 2. ....	38
Table 9. Rod-endorsement Lease Sub-options .....	39
Table 10. Angler Days .....	40

## LIST OF FIGURES

Figure 1. Step-Up/Step-Down Sub-options in Context.....	23
Figure 2. Sub-Areas in Context .....	25
Figure 3. Permit Classes in the Context of the Alternative.....	33

## **ABBREVIATIONS**

ADF&G	Alaska Department of Fish and Game
BID	Business Improvement District
CEY	Constant Exploitation Yield
GHL	Guideline Harvest Level
IPHC	International Pacific Halibut Commission
IFQ	Individual Fishing Quota
Lbs	Pounds
M	Million
NPFMC	North Pacific Fishery Management Council
OY	Optimum Yield
QS	Quota Shares
SWHS	Statewide Harvest Survey



## OVERVIEW

This paper addresses six discussion points associated with Alternatives 2 and 3 of the North Pacific Fishery Management Council's (NPFMC) *Charter Halibut Permanent Solution Alternative and Options* as of July 2006.<sup>1</sup> These points include 1) the availability and quality of charter halibut data; 2) Alternative 2's specific sector allocation formulas (Issue 1 within Alternative 2); 3) sub-area allocations (Issue 1 of Alternative 3); 4) finance mechanisms for a compensated transfer; 5) permit classes (Issue 4 of Alternative 2); and 6) share-based permit systems (Issue 4 of Alternative 2).

The points discussed in this paper include some of the ingredients under consideration in the proposed permanent solution alternative. However, while the suite of ingredients appears in this document, the actual recipe for putting those ingredients together into a permanent solution is still being developed. Where possible this paper has discussed how different potential options may interact with other options. This discussion will continue to evolve as the recipe for combining options becomes more apparent, but some interactions are already clear. For example, the following effects of the following combinations are discussed in this paper:

- Combining a share-based system based on angler days with a percentage allocation may require management of the number of angler days available to the charter sector. It would seem logical that just as the actual pounds of halibut assigned to each QS in the commercial ? changes each year through the IPHC allocation, that the number of angler days assigned from each share based on historical effort might also change with biomass if the Council pursues a percentage allocation.
- A permit system may be redundant when combined with an effective share-based system. For example, a share-based system based on angler days could function in much the same way the current commercial halibut quota share system functions with regards to managing overall pressure on halibut. At the same time, ownership of shares in the system becomes the de facto permit needed for participation in the system. Hence, a concurrent permit system with additional restrictions may be redundant.
- None of the current options represent a complete solution to the question of compensated transfers. However, several of the options can be combined to create complete financial and compensation solutions.

The sub-sections below discuss the core results from each of the six points.

### **Availability and Quality of Charter Halibut Harvest Data**

The availability and quality of data on past charter halibut harvests are issues State and Federal policy makers have discussed for a number of years. For example, limitations on the use of halibut data collected in the Saltwater Sportfishing Charter Vessel Logbook for 1998-2001 have been widely discussed and debated in the 2001 Preferred Alternative. At its February 2006 meeting, the current Stakeholder Committee discussed limitations with agency staff on the use of Alaska Department of Fish and Game (ADF&G) charter halibut data for allocating catch history or effort history to individual charter halibut operators. The Council is now considering new options to address "recency" by considering information on recent participants who did not meet the qualification criteria in the 2001 Preferred Alternative. These options include using proxy data, a Quota Share (QS) allocation formula based on participation, awarding

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<sup>1</sup> Please see Appendix A for the text of the current alternatives. The author strongly recommends reading the alternatives before reading this discussion paper.

angler trips, and collecting more data. Each of these options have positive attributes, but all have significant negative aspects as well. The significant issues range from leaving out some operators who might justifiably belong in the program to waiting several years to collect new data. How quickly the Council wishes to enact the new program would help determine which option is most appropriate.

## **Sector Allocation Formulas**

Issue 1 within Alternative 2 proposes charter sector allocations based on two main options: a fixed percentage and a fixed pound allocation. Overall there are six options currently under consideration, of which four are fixed percentage options and two are fixed poundage options with the potential for step-up or step-down provisions of those “fixed” allocations based on halibut biomass. The discussion came to the following conclusions:

- Fixed percentage options would more directly respond to changes in biomass and IPHC CEY allocations more than fixed poundage options.
- Some options will allocate more halibut to the charter sector than the sector harvested in 2004. Thus, it might be wise to 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. Fixed percentage options also have the potential to 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 QS.
- An in-season lease mechanism may need to rely on in-season harvest estimates in order to determine whether the charter fleet had excess halibut. The current system of estimating harvests provides estimates months after the end of the calendar year. Thus, the current 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**

As Issue 1 of Alternative 3, this option would allocate charter halibut on a sub-area level instead of an area level. Alaska Department Fish & Game (ADF&G) staff are preparing additional discussion and text, but have not yet provided these items. Therefore, a general discussion of some of the issues that might arise with sub-area allocations are provided as follows:

- **Area vs. Sub-Area Management** – In general, sub-area management will increase the burden on regulatory agencies 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 the transfer of units within the charter sector. For example, an option within Issue 5 of Alternative 3 would allow unit transfers to flow freely within the charter industry. If selected, this option would mean that some sub-areas could conceivably watch their unit transfer to other more profitable areas where demand for unit is higher. While allowing sub-area unit 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, assume that unit 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 the growth rates of specific sub-areas without changing the total area-wide allocation. For example, Kodiak is often discussed as a community with a still-developing charter industry, while charter industries in 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 QS per operator/current seat/unit-of-measure, 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 per operator/current seat/unit-of-measure. On the other hand, a sub-area allocation could also protect of 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. NMFS staff have noted that 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

The paper discusses six proposed finance mechanisms as raised by Stakeholder Committee members. These options were originally part of the alternatives, but were recommended for removal because none

of the options would be implemented in regulation, and is therefore not subject to an EA/RIR/IRFA. The Council should decide if it is the appropriate agency to select a mechanism to finance a reallocation from the commercial to the charters sectors, and if so, how to proceed. The authors note that the discussed financing mechanisms have not been vetted by legal counsel and that the discussion of these options here in no way indicates that the options are legally feasible. The legal and regulator details are largely unknown at this point and will need future exploration by federal and state counsels.

A number of these options represent incomplete financing mechanisms that could be combined with other options to create a more complete mechanism. For example, Option 5 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, Option 1 provides a revenue stream through a state charter stamp, 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 option doesn't designate who would hold the QS.

Some options are duplicative. For example, allowing private entities to purchase QS and hold them for a group of operators (Option 2) is very similar to Option 3, which calls for a tax on trips through a Business Improvement District (BID). Because it is unlikely that a public BID would work, Option 3 becomes very similar to Option 2.

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. As noted in the discussion of other issues, 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.

## **Permit Classes**

Element 8 of Issue 4 in Alternative 2 establishes two permit class options. The paper poses the following questions and suggestions:

- A traditional permit system may not be necessary if the Council pursues a share-based system utilizing angler day allocations<sup>2</sup>, rod endorsement, or annual trips limits. In any system taking a share-based approach, the ownership of the share effectively acts as a de-facto permit.
- The purpose of permit classes is intended to weed out marginal players and transfer their permit to underdeveloped communities as mentioned in Issue 5 of Alternative 2. The permit classes outlined in Option 2 above would create transferable permits (Class A) above or equal to a certain number of days per year. Class B permits would be assigned to operators that do not make the qualifying threshold. One assumes that these days are effort levels based on history and that operators would attempt to qualify for a Class A or B permit as that element is not clear in the issue's current written form. However, given the advantages of share-based systems staff recommends not pursuing the permit class system. The permits in and of themselves provide no additional benefit, as share-based systems can also weed out marginal players by providing them with allocations too small to continue operating. These operators face a choice of selling their shares or purchasing more shares. In either case, some form of industry consolidation generally follows.

## **Share-Based Permit System**

Element 8, Issue 4 of Alternative 2 consists of three main share permit assignments based on trips, rods, or angler days. Shares based on angler-days would be the most effective harvest control. Both the trip permit and the rod-endorsement option leave room for harvest growth when considered individually. For example, operators would be able to increase harvest under a trip permit option by increasing the number of passengers they take per trip. Under a rod-endorsement option (where the number of passengers fishing at any one time is capped), an operator can increase revenue and harvest by taking more trips or by taking more passengers than can fish at any one time. Two ways to control harvest within these options is to consider the angler-days system or a combined trip permit and rod-endorsement system. Even in this case the angler day system provides more complete control because an operator can still take more passengers than can fish at any one time with a given number of rods. Using just Option 1 (the trip system) or Option 2 (the rod-endorsement system) would allow operators to increase pressure through the mechanisms described above. Staff recommends the use of the angler-days sub-option because it is the only one that provides complete control over harvest pressure and because the system would work in a manner similar to established QS systems.

In addition, the paper discusses the following:

- As with Element 8 above, the current permit discussion does not link to the proposed moratorium permit. In order to avoid confusion and limit opportunities for legal wrangling, it

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<sup>2</sup> The definition of an angler day has not been officially defined for this context, but the author interprets it to mean individual fishing effort by an individual angler with a calendar day regardless of actual duration of effort. Under this definition if an angler booked two charter experiences, one in the morning and one in the evening, in one calendar day then the angler would have generated two angler days.

may make sense for ownership of a moratorium permit to be a condition of receiving a new permanent permit.

- The author requests clarification on the following sentence from Option 1, the share-based permit, “on trips from 1998 - 2005 logbook records of total days of bottomfish effort per season.” Is the option based on trips or groundfish effort days? Clarifying the sentence would be helpful when preparing the analysis.

## AVAILABILITY AND QUALITY OF CHARTER HALIBUT HARVEST DATA

### Description

Policy makers have discussed issues associated with the availability and quality of data used in estimating past charter halibut harvests for a number of years. For example, limitations on the use of halibut data collected in the Saltwater Sportfishing Charter Vessel Logbook for 1998-2001 have been widely discussed and debated in the 2001 Preferred Alternative. In the end, the Council (through its Scientific and Statistical Committee) found that the data were the best available upon which to base individual share allocations and NOAA raised no legal objections restricting their use.

With respect to the complete lack of halibut harvest data after 2001, ADF&G staff summarize the data limitations as follows:

*The missing halibut data question makes it difficult to accurately determine eligibility for businesses to qualify for QS, moratorium, or limited entry, as the Department cannot provide clear determinations of who actually took clients fishing for halibut. There are other proxies that could be used, but all are proxies and thus estimates of who may have chartered clients for halibut. Some will exclude people who may have actually chartered clients for halibut while others would include those that may not have chartered clients for halibut. For example using groundfish areas as a proxy may exclude people who did not record a groundfish if the only species they chartered for was halibut. Conversely, using overall effort may grant fishing privileges to people who only fish salmon.*

The Council is now considering new options to address “recency” by considering information on recent participants who did not meet the qualification criteria in the 2001 Preferred Alternative. These options include using proxy data, a share allocation formula based on participation, and awarding angler trips based on 1998 and 1999 data. Additionally staff raised the prospect of collecting more data. Each of these options has positive attributes, but all have significant negative aspects as well (see Table 1). The significant issues range from leaving out some operators who might justifiably belong in the program to waiting several years to collect new data.

**Table 1. Issues with Methods to Award Halibut Charter Shares**

Method	Proxy Data	Allocation per Qualifying Year	Effort-Based Transferable Seat Program (Share System)	Collect New Data
Positive Aspects	<ul style="list-style-type: none"> <li>Based On Previously Collected Data</li> <li>Addresses Longevity Issue</li> <li>Proxy Data May Be Representative of Past Success.</li> <li>Data biases have been discussed.</li> </ul>	<ul style="list-style-type: none"> <li>Based on Previously Collected Data</li> <li>Addresses Longevity Issue</li> </ul>	<ul style="list-style-type: none"> <li>Provide more complete control of overall effort.</li> <li>Recognizes the halibut charter fleet harvests multiple species</li> </ul>	<ul style="list-style-type: none"> <li>New data collection techniques may address old bias issues (theoretically).</li> <li>Includes all current operators.</li> <li>Ability to design a system which can work with other management components</li> </ul>
Negative Aspects	<ul style="list-style-type: none"> <li>Will include businesses who did not catch halibut but reported bottomfish effort</li> <li>Will exclude businesses who failed to Report bottomfish Effort, even if they were not required to (caught salmon while targeting halibut).</li> <li>Magnitude of these Effects is Unknown.</li> </ul>	<ul style="list-style-type: none"> <li>Does not include or reward business success.</li> <li>May be less desirable to successful industry members.</li> <li>May be more vulnerable to cheating.</li> </ul>	<ul style="list-style-type: none"> <li>Data may not be available (To be clarified).</li> </ul>	<ul style="list-style-type: none"> <li>Potential time delay in collecting data.</li> <li>Does not inherently address the longevity issue.</li> <li>May be vulnerable to cheating depending on the type of data collected.</li> <li>New biases may be unknown.</li> </ul>

## Discussion

### Proxy Data

An allocation method could use proxy data based on bottomfish effort captured in ADF&G logbooks. The proxy data are potentially valuable because the state stopped collecting charter halibut catch data in the logbooks after 2001. It continued the requirement to report effort data, but some operators did not comply. In recent years, NPFMC and ADF&G staff investigated possible proxies for the charter catch data. A leading candidate for estimating halibut participation is the bottomfish effort because this is where charters targeting halibut were required to report their effort, and because other bottomfish species are most commonly taken while targeting halibut or in combination with halibut. The use of proxy data has several positive aspects, these include:

- The data are based on past survey efforts and are readily available for use by decision makers.
- The data could be used to address the longevity in the charter industry, which is important to some members of the charter industry.

- Effort for bottomfish might be correlated with success at harvesting halibut and proxy data could not only indicate frequency of trips, but harvest levels.<sup>3</sup>

While the positives would allow policymakers to make a decision more quickly than with some of the other options, there are significant negative aspects associated with the proxy data. These negatives include:

- The proxy data may not be complete. While the state required all (including halibut) charter operators to report bottomfish harvest and effort by geographic area, a preliminary examination of logbooks since 2002 indicates that all operators may not have complied in 2002 (from a preliminary examination of the data) although compliance may have been better in more recent years. NPFMC staff discussions with some industry participants indicate that some participants did not report their halibut effort. The size of this segment is unknown but initial results below from ADF&G show that approximately one to three percent of records fit this category.

Some charter businesses would not get credit for halibut they caught while targeting salmon, even though they completed their logbook as required. If halibut were caught while targeting salmon they were not supposed to record any bottomfish effort.

- Charter trips that reported bottomfish effort but caught no halibut will get credit for halibut. This would include trips where charters targeted salmon sharks (mostly in Area 3A) or combination trips that did not include halibut (e.g., salmon + lingcod). Undoubtedly some charters recorded bottomfish effort if they caught rockfish or lingcod, even though they weren't targeting them.

### **Allocations per Qualifying Year**

In 2006 the Council adopted several options to use for analysis if the bottomfish logbook data for 2002-2005 are unsuitable for awarding catch or effort allocations to charter operators. One such option is for the Council to base individual allocations on criteria other than catch or effort. For example, the Council could identify a qualifying period of 1997-2005 with the saltwater vessel logbook program commencing in 1998. Any charter operator who could prove any bottomfish or halibut participation in a given year through licenses, business records, or other acceptable means (as defined by the Council) would receive one unit of allocated QS for each year of participation. Thus, the maximum a charter operator could generate would be 9 units if they participated in each qualifying year. An individual unit of QS would be worth the total amount of allocated QS divided by the number of qualifying units. Positives of this method include:

- The method could reward longevity, but would not address individual history. Industry suggestions helped develop this approach to make it more acceptable to those who have a history of success.
- Because the data are based on historical data, they are readily available for use by decision makers.
- The method is relatively simple to execute.

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<sup>3</sup> That said, the reverse could also be true. Operators might be more likely to actively target rockfish and lingcod on halibut fishing trips where the halibut success rate is low to avoid having clients go home empty handed.

As with the proxy data option, while the positives of this option would allow policymakers to make a decision more quickly than some of the other options, there are also significant negative aspects. These negatives include:

- The option may be less desirable to more successful operators because it does not include or reward individual success in the fishery beyond long-term participation.
- This system may be more vulnerable to allowing non-qualifying individuals into the pool simply for the reason that it may provide more ways to qualify than other options. The greater the number of ways an individual can qualify, the greater the chance that the program will accidentally include individuals who wouldn't qualify under other criteria.

Another aspect of this option will depend on whether the qualifying application requires one to be a current charter operator or not. If past operators are allowed to apply, then the qualification process could award QS to those who are no longer in operation. This issue will arise whenever history is used as part of the qualification process. Allowing past operators to participate would mean additional expense for current operators, because they would likely receive a lower allocation than what they would have if past operators were not included in the program. The Council has identified its preference for requiring participation in the year preceding implementation.

### **Effort-Based Transferable Seat Program (Share System)**

An effort-based transferable seat program is a share system awarding angler days or trips instead of quantity (numbers or pounds) of fish. The charter industry is driven by the number of clients and angler-days and represents a more complete measure of harvest effort and pressure (Vincent Lang 2006). If the amount of fish allocated is not enough for each individual then pressure, which otherwise would have been placed on the halibut resource, will spread out to other, likely state-managed fisheries. Thus, controlling halibut harvest does not necessarily provide a complete control over the overall effort coming from halibut charters as the charter fleet is really a multi-faceted, multi-species industry and increasing controls on halibut volume could exacerbate management issues for other species. An effort-based management system, such as the angler-day option in Issue 4 of Alternative 2, could provide more complete control over the overall effort and enable more effective management of both halibut resource and the resource comprised of other groundfish species.<sup>4</sup> ADF&G staff reports that data are available to implement such a program. As noted above, Issue 4 of Alternative 2 discusses rod-permit endorsements and angler-day endorsements, which would be similar to awarding trips. The effect of this allotment will in some way be related to the level of transferability built into the program because inevitably some operators may be awarded fewer trips than makes them viable, while some may be awarded more trips than they might use. Transferability of allotments, whether angler days or trips, allows for the most efficient and interested operators to maximize their business while providing less efficient, or interested operators a means of making a compensated exit from the industry. The authors note the pursuit of effort-based transferable seat programs will require close coordination between the federal managers of the halibut fisheries and state managers of other groundfish resources. After comparing the types of share based systems (rods, trips, angler days) the staff recommends the angler day concept (see staff minutes).

Finally, NMFS staff have raised the point that inter-sector transfer of unutilized allocated halibut would be difficult if a conversion needed to be made between angler days and pounds of fish as obtaining precise estimates of allowable halibut catch may be difficult. Recent work has found using proxy data to

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<sup>4</sup> This statement assumes that operators don't transition from selling "halibut charters" to selling "multi-species" charters. It is possible that under an angler day system we could see more pressure on other species if the majority of halibut charter operators evolve into selling experiences which deliberately target multiple species on every trip.

be relatively accurate within homogenous groups, but much less so over heterogeneous groups of anglers (Gasper 2006). These potential difficulties argue for an angler-day system to be paired with an allocation whereby the allocation would be used as the basis of temporary inter-sector exchanges while angler days would form the basis of controlling overall effort.

### **Collect New Survey/Logbook Data**

The Stakeholder committee also discussed collecting additional halibut data for operators. Starting in 2006, ADF&G reinstated the reporting of Pacific halibut harvest and release data in the Saltwater Charter Logbook program. ADF&G has implemented or is planning to implement the following strategies to address the need for accurate reporting of the harvest of Pacific halibut by saltwater charters. The strategies should improve the data collected by the program and include:

- Reporting of kept and released for Pacific halibut will be at the level of the individual chartered client (angler).
- Unique identification information for each client will be required and will be reported with the associated kept and released information for each fish species. One of the following identifiers will be used to identify each client and their trip characteristics: (1) ADF&G Sport Fishing License number; (2) Permanent Identification Card number; (3) Disabled Veterans License number; or (4) name for underage anglers (or possibly identified by accompanying adult's license number). Collecting this information will enable cross-verification (charter operator versus client) of logbook information (see next bullet).
- Off-site (cross-) verification will involve follow-up mail surveys of chartered anglers, using the identifying information provided in the logbook reports, combined with the ADF&G license databases.
- Mandatory recording of all information for each chartered trip before clients and harvest are offloaded at the end of the trip.
- Reporting (i.e., turning in charter logbook sheets) will occur on a weekly basis. Weekly reporting will enable timely feedback to charter operators regarding possible reporting errors and omissions. So, for example, incomplete and missing data in logbooks (e.g., statistical areas missing digits, port of landing missing, no effort information recorded, etc.) can then be addressed in a timely and accurate manner.
- Dock-side creel surveys to provide verification of the number of clients and numbers of Pacific halibut kept will occur for a random sub-sample of locations and charter trips for a yet-to-be determined portion of saltwater charter trips in Southeast and Southcentral Alaska. Verification will involve direct counting of clients upon offloading, and direct observation and counting of harvested halibut.
- Stricter penalties for logbook violations were implemented in 2004 when the legislature passed guide licensing and reporting provisions.

Under this particular option, the Council could table further development of a program to award individual shares until 2010 when three years of SWHS data could verify the accuracy of halibut data in ADF&G logbooks. This option has several significant advantages including:

- The data collected under this option will be recent and reflect the natural changes that have occurred in the charter fleet since the collection effort started nearly a decade ago.
- There is the opportunity to use this system as a potential starting point for the near real-time reporting system necessary to allow charter QS to be leased back to the commercial sector. As mentioned in the discussions of the Sector Allocation Formulas and Finance Mechanisms, the leasing back of charter QS to the commercial sector has the potential to become an important revenue source and stabilization mechanism for a charter QS program. The fact that this option would delay the implementation of that system until 2010 means that the industry and the state can work together to test new reporting methods while collecting the new data.
- The collection of the new data would remove doubts about any decision-making process based on the data collected between 1998 and 2001.
- The option addresses the concerns of those who would like to see a reward for individual success in the fishery.
- Staff recommends separating the development and review of the proposed moratorium and the permanent solution. Staff believes separating the analyses will enable greater public involvement and comprehension of the issues at hand leading to superior analyses.

That said there are also significant potential negatives associated with this option.

- The option delays final implementation of a program until 2010 or later.
- There is no absolute guarantee that the new data currently being gathered will be a better match to SWHS data than the data on halibut harvest the state collected between 1998 and 2001.
- This methodology does not directly address the longevity issue, which has been important to some members of the charter industry. However, this factor could be mitigated by having a longer qualifying period and share system based on effort.
- The program could create a “gold rush” mentality in the charter sector if participants know that their fishing success will directly benefit them in a future allocation system.

## SECTOR ALLOCATION FORMULAS

### Description

Issue 1 within Alternative 2 proposes charter sector allocations based on two main options: a fixed percentage and a fixed poundage allocation. These allocations options include four proposed percentage options and two proposed poundage options (see Table 2). In addition, the poundage sub-options include stair-step sub-options to increase/decrease an allocation if a biomass threshold is reached. The formulas within the options are the main focus of the discussion while the percentages are preliminary figures indicating an approximate allocation that each formula would produce. Thus, this discussion focuses on the implications of the formulas as opposed to the specifics of the preliminary percentage allocations.

**Table 2. Issue 1-Charter Allocation Options and Sub-options**

Option	As Written in Alternative	Full Meaning	Approximate Amount	
			Area 2C	Area 3A
1a	125% of average harvest of 2000-2004, translated to percentage	The charter industry's percentage is equal to 125% of the Charter Industry's Harvest from 2000-2004 translated into a percentage of the combined charter/commercial catch during the same period.	16.37%	15.92%
1b	equal to the 1995-99 GHL, translated to percentage	The charter industry's percentage is equal to the 1995-1999 GHL translated into a percentage of the combined charter/commercial catch during the same period	13.05%	14.11%
1c	percentage of combined 2004 commercial/charter catch	The charter industry's percentage is equal to their percentage of the combined 2004 commercial/charter catch.	14.70%	12.90%
1d	Convert current GHL into percentage based on 2004	The charter industry's percentage is equal to the current GHL on a percentage basis using 2004 combined commercial/charter harvest.	12.10%	12.90%
2a	Update GHL to 2000-2004	The charter industry's allocation would be an updated GHL reflecting 2000-2004 biomass estimates and IPHC allocations.	1.693 Mlbs	4.011 Mlbs
2b	Equal to the 1995-1999 GHL	Keep the GHL at its current level.	1.432 Mlbs	3.650 Mlbs

Note: Option 2a and Option 2b have sub-options. The first sub-option would leave Option 2a and 2b without a step-up or step-down provision. The second sub-option would allow step up/down provisions of 5, 10, or 15% of the base years of the initial allocation.

### Discussion

#### Percentage Allocations or Fixed Allocations?

There are two groups of options within this issue: those that use a formula providing an allocated percentage of the total and those that allocate a fixed poundage. All of the options within a group share common characteristics.

Options allocating a percentage automatically adjust with IPHC's estimates of available biomass. This allows the industry to grow when biomass is increasing. On the other hand, this flexibility would also

require that the industry contract in years when biomass declines and the sectors' allocation is not enough to cover its needs. IPHC staff has noted that we are currently at higher relative levels. This contraction could be avoided if the sector were able to purchase or lease additional halibut quota or QS from the commercial sector. The percentage formula could result in allocations to the charter sector could increase beyond the sector's ability to harvest the allocation. This feature represents both a threat and an opportunity. The disadvantage is that leaving charter allocation unharvested fails to maximize the value of the fishery if that allocation could have been harvested by the commercial sector. The opportunity lies in the fact that unharvested allocations represent a potential revenue stream for the industry which could be saved to purchase additional quota for when biomass falls or industry growth increases consumption. Taking advantage of this opportunity requires a mechanism for acquiring additional allocation and holding the money generated for unharvested allocations in trust for the industry. These mechanisms are not without risk as the charter industry would likely need to buy quota when abundance is low and the price is high, and would want to sell it when abundance is high. Options to create some of these mechanisms are part of the proposed alternative. The discussion below indicates that some options are likely to result in unharvested allocations for a period given current industry growth rates. Additionally, we note that the in-season management techniques required to allow these mechanisms to operate have not been developed and will have costs associated with their development and operation. Additionally, in-season management could affect business practices and client bookings if the management team requires restrictions on harvest late in the season (e.g., the sector harvested halibut at a higher rate early in the season than could be sustained by the allocation over the course of an entire season).

The fixed poundage allocation options would not change with biomass unless the second sub-option for a step-up or step-down function is added. Under these sub-options the allocation poundage would change by a set amount when increased or fall to specific trigger point levels. Even with the addition of this sub-option, the poundage allocation is fundamentally less responsive to biomass changes than the percentage changes. This attribute means the amount is more stable than the percentage allocation option. The charter sector would receive more protection in times when biomass decreased, but there would be no upside (without a step-up function) when biomass increased. Even with the proposed step-up function, the poundage allocations would be less responsive to biomass changes than the percentage allocations. For example, assume a poundage option with step-up sub-option of +/- 10 percent is selected. If biomass and what will be the combined commercial/catch CEY increase by 9 percent, the step-up function would not be triggered. This unallocated amount would be roughly 360,000 pounds in Area 3A under Option 2a under current biomass estimates. Thus, while a fixed poundage could adapt to changing biomass, it would not be as smooth an adaptation as under a fixed percentage allocation.

In summary, the fixed percentage options are more flexible, but they also require a mechanism for adapting to changes in halibut biomass. Industry, and the government, will have to be prepared for the implications of both increases and decreases in biomass and IPHC allocations. Poundage options are more stable, but would not allow the charter industry to benefit from biomass increases as quickly or completely as the fixed percentage options. On the other hand, the industry would be somewhat protected by reductions in biomass if the option did not have a step-down function. Staff believes that the benefits provided by the flexibility of fixed percentage allocations are likely to outweigh the stability benefits of poundage allocations

### **Implications of Individual Options**

Options 1a through 1d are based on fixed percentages, while Options 2a and 2b are fixed poundage allocations. Each option represents a different allocation formula and has different implications for both commercial and charter user groups. The analysts prepared the following tables to help compare the options. Table 3 provides a preliminary estimate of how the options would have affected the charter industry in 2004 using 2004 IPHC commercial CEY amounts and estimates of guided sport take in each

area. Table 4 shows estimated charter industry harvests through 2014 as calculated in NPFMC, 2006. These examples assume no other controls are implemented to slow harvest. If the state is successful in getting a change to the Halibut Act and can manage with traditional tools then these harvest could be lowered.

**Table 3. Preliminary Effect of Each Alternative in 2004-Illustrative Example**

Option	Area 2C (Mlbs)			Area 3A (Mlbs)		
	Actual 2004 Harvest	2004 Amount Under Allocation	Surplus/Deficit to 2004 Harvest	Actual 2004 Harvest	2004 Amount Under Allocation	Surplus/Deficit to 2004 Harvest
1a	1.750	1.962	0.212	3.668	4.464	0.796
1b	1.750	1.564	-0.186	3.668	3.956	0.288
1c	1.750	1.762	0.012	3.668	3.617	-0.051
1d	1.750	1.432	-0.320	3.668	3.650	-0.018
2a	1.750	1.693	-0.057	3.668	4.011	0.343
2b	1.750	1.432	-0.318	3.668	3.650	-0.018

Source: Northern Economics Estimates based on IPHC 2004 RARA.

**Table 4. Estimated Charter Industry Harvests by Year and Millions of Pounds**

Year	Area 2C	Area 3A
2005	1.639	3.414
2006	1.736	3.501
2007	1.838	3.590
2008	1.947	3.682
2009	2.061	3.776
2010	2.183	3.872
2011	2.312	3.971
2012	2.448	4.072
2013	2.593	4.176
2014	2.746	4.282

Source: NPFMC, 2006.

### Option 1a

Under Option 1a the charter industry's percentage is equal to the GHF updated with data from 2000-2004 translated into a percentage of the combined charter/commercial catch during the same period. This option would allocate approximately 16.37 percent of the IPHC's annual commercial/charter allocation in Area 2C and 15.92 percent in Area 3A. In 2004, this option would have provided charters in both Areas 2C and 3A with more halibut than they harvested that year. In Area 2C, the charter industry harvested 1.75 million pounds of halibut, while Option 1a would have provided the industry with 1.962 million pounds. Thus, the industry would have had a surplus of approximately 0.212 million pounds which is roughly 12 percent of actual harvest that year. In Area 3A, the surplus would be approximately 0.796 million pounds or 21.7 percent higher than 2004 harvests. While the actual numbers would likely change in a more rigorous analysis, several important results emerge from this example:

- The allocation to the charter sector would be higher than current charter consumption and the charter GHL. All things being equal, supplying the sector with more than current consumption would mean a reduction for the commercial sector as the charter surplus would exceed commercial underages.
- The charter sector would likely leave allocated halibut in the water unharvested until the natural growth rates of each sector brought harvest up to the same level as the allocation. This unharvested halibut could have brought revenue to the commercial fleet without the allocation. A mechanism such as a lease or auction to return the unharvested halibut to the commercial fleet would allow both fleets to capture the monetary value of the unharvested allocation.
- The growth projections from NPFMC, 2006 (see Table 4) predict that under Option 1a the charter sector in Area 2C would have a surplus until 2008 or 2009, while the charter industry in Area 3A would have a surplus until 2014 or later. Thus, while the option provides some “breathing” room to both sectors, it does not provide a truly stable, long-term solution without either some way to limit future growth or a mechanism that allows the future transfer of quota. This breathing room comes at the expense of commercial revenues and net benefits to the nation.<sup>5</sup>
- Because the option is a percentage allocation based on the size of the resource, the actual poundage or fish allocated to the sector will rise and fall with biomass. An increase in biomass could exacerbate the issue of unharvested halibut, while a decline in biomass would leave the industry short of halibut if there was not another mechanism for acquiring halibut quota from the commercial sector. Under a declining biomass scenario one would expect the price of QS to rise because the commercial sector would also be affected by the declining availability of halibut.

### **Option 1b**

Under Option 1b the charter industry's percentage is equal to the 1995-1999 GHL translated into a percentage of the combined charter/commercial catch during the same period. Early estimates of this option translate into 13.05 percent in Area 2C and 14.11 percent in Area 3A. Using the same estimation technique and 2004 data as used in the discussion for Option 1a, this option would have left the charter industry in Area 2C short of the actual harvest by approximately 0.186 Mlbs in 2004. However, the amount would still be roughly nine percent above the GHL of 1.43 Mlbs. In Area 3A, the option would give the charter sector approximately 0.288 Mlbs more than they harvested, with room to grow in the future. Table 4 shows the analysis estimates that the charter sector in Area 3A would have enough unharvested halibut to absorb the industry's natural growth rate until 2010/2011. Thus, under this option:

- The industry in Area 2C would either have to contract or acquire additional halibut beyond the allocation allowed in the option. The industry in Area 3A would maintain a level of buffer.
- The challenges associated with managing changes in biomass would still exist, but, as noted above, the industry in the two areas would face fundamentally different challenges from the start.
- The allocation in Area 2C would actually return halibut to the commercial sector, compared with the status quo, while the allocation in Area 3A would divert additional halibut from the commercial sector to the charter sector.

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<sup>5</sup> The net benefits loss is mitigated or eliminated if the charter industry can lease excess back to the commercial sector.

### **Option 1c**

Under Option 1c, the charter industry's percentage is equal to its percentage of the combined 2004 commercial/charter catch. Preliminary estimates indicate that this formula would give the charter industry in Area 2C 14.70 percent of the combined commercial and charter allocation, while the Area 3A charter sector would receive 12.90 percent. In both areas in 2004, the amounts this formula would have allocated would have been approximately equal to the amount the respective charter fleet in each area harvested in that year. Thus, under this option:

- The initial reallocation from the commercial sector to the charter sector is approximately no worse than the current unofficial 2004 allocation that occurred when the IPHC set the commercial CEY.
- The option does not leave room for further charter industry growth without acquiring additional halibut QS from the commercial sector. The only way the charter industry could acquire more halibut to fuel future growth without going to the commercial sector would be for the biomass to increase at a rate equal to or greater than the natural growth rate of the charter sector in each area.
- The formula would allocate more than the current GHF in Area 2C because the charter industry exceeded the GHF for that area in 2004 by 0.012 Mlbs. However, in Area 3A the allocation would be almost exactly the same as the current GHF.

### **Option 1d**

Under Option 1d, the charter industry's allocation is equal to the current GHF converted to a percentage using 2004 combined commercial/charter harvest. In Area 2C, the formula would have reduced the amount available for charter harvest without acquisition of additional halibut quota from the harvested 1.750 Mlbs to 1.432 Mlbs; a reduction of less than 20 percent. In Area 3A, the formula would have reduced the amount available for harvest by roughly 18,000 pounds or less than one-half of one percent of the 2004 harvest.

- This option would effectively increase the allocation to the commercial sector from current levels because the amount allocated to the charter sector is less than current harvests. The net effect would be that commercial allocation would likely increase, all these being equal, because estimates of charter harvest are deducted during the IPHC's calculations to set the commercial allocation. IPHC staff has noted that under an allocation plan they would create a combined catch limit for both sectors.
- This option would also result in a need for the charter industry, particularly in Area 2C, to acquire the right to harvest additional halibut, or face an industry-wide contraction. The industry in Area 3A would likely face the same situation, although to a much smaller degree. Future growth would require additional allocation, but the relative magnitude of any contraction without acquiring it would be much smaller. A decrease in biomass would exacerbate this issue while an increase would provide some relief.

### **Option 2a**

Under Option 2a, the charter industry's allocation would revise the GHF, to reflect that the IPHC estimated higher biomass numbers in 2000-2004 were estimated when the NPFMC established the GHF. This formula would provide approximately 1.693 Mlbs to the charter industry in Area 2C, and 4.011 Mlbs to the charter industry in Area 3A compared to 1.432 and 3.650 Mlbs respectively. In a situation similar

to that seen in Option 1b, this allocation would be below 2004 harvest levels for Area 2C and above 2004 harvest levels in Area 3A. Thus, under this option:

- The industry in Area 2C would either have to contract or acquire additional halibut beyond the allocation allowed in the option. The industry in Area 3A would be allocated more than it used to. Prior estimates in NPFMC, 2006 indicate that this amount would cover growth in the industry through 2011/2012.
- The allocation in Area 2C would reallocate halibut to the commercial sector while the allocation in Area 3A would reallocate additional halibut from the commercial sector to the charter sector.
- A step-up/down function driven by biomass would mitigate the industry's need to purchase additional halibut quota when periods of increasing demand and increasing biomass coincide. However, in periods of decreasing biomass and increasing demand, the step-down function would increase the need of the industry to purchase halibut quota. Under these conditions quota share prices are likely to increase as the commercial industry would face similar reductions in available biomass
- Area 3A would have some unharvested allocated halibut for a number of years. A step-up function would increase this unharvested amount. An auction or lease program to ensure the harvest of this unused amount would allow the industry to bank money for the purchase of halibut quota in the years when industry growth outstrips the allocation, or for when the step-down function pushes the allocation below the industry's needs.

## **Option 2b**

Under Option 2b, the charter industry's annual poundage is equal to the current GHF. This formula would give the charter industry in each sector the current GHF. As with Option 1d, in Area 2C and based on 2004 conditions, the formula would have reduced the amount available for charter harvest without acquisition of additional halibut quota from the harvested 1.75 Mlbs to 1.432 Mlbs; a reduction of slightly less than 20 percent. In Area 3A, the formula would have reduced the amount available for harvest by roughly 18,000 pounds or less than one-half of one percent.

- This option would effectively increase the allocation to the commercial sector from current levels because the amount allocated to the charter sector is less than what the sector is currently harvesting and projections of this amount are included in the IPHC commercial CEY calculations.
- This option would also require the charter industry, particularly in Area 2C, to acquire the right to harvest additional halibut or face an industry-wide contraction. The industry in Area 3A would likely face the same situation, although to much smaller degree. Future growth would require additional halibut quota, but the relative magnitude of any contraction without acquiring additional quota would be much smaller. A decrease in biomass would exacerbate this issue while an increase would provide some relief.
- A step-up/down function driven by biomass would mitigate the industry's need to purchase additional halibut quota when periods of increased demand and biomass coincide. However, in periods of decreasing biomass and increasing demand, the step-down function would increase the need of the industry to purchase halibut quota.

## Fixed Poundage Sub-options: Step-Up/Step-Down Functions

This issue has two sub-options which apply to Option 2a and Option 2b (see Figure 1). The first sub-option would essentially leave Options 2a and 2b unchanged without a step-up or step-down provision. The second sub-option would allow a step-up or step-down provision to the fixed poundage allocation if halibut biomass and the combined commercial/charter CEY changed from levels at the initial allocation. Staff revised the language adopted by the Council by adding details of the step up/down features of current regulations.

Figure 1. Step-Up/Step-Down Sub-options in Context

<b>ALTERNATIVE 2. ALLOCATION TO THE CHARTER HALIBUT SECTOR</b>			
<b>Issue 1, Allocation</b>			
Option 1. Fixed Percentage of combined commercial/charter catch limit:			
<b>formula</b>	<b>Area 2C</b>	<b>Area 3A</b>	
a. 12.5% 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%	
Option 2. Fixed Pounds			
<b>formula</b>	<b>Area 2C</b>	<b>Area 3A</b>	
a. update GHL to 2000-2004	1.7 Milb	4.0 Milb	
b. equal to the 1995-1999 GHL	1.4 Milb	3.7 Milb	
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 fall from 15 to 24 percent below its average CEY, then the allocation would be reduced by 15 percent. If the stock abundance were to fall at least 25 to 34 percent, then the allocation would be reduced by an additional 10 percent. If it continued to decline by at least 10 percent increments, the allocation would be reduced by an additional 10 percent.)		

Sub-option 1 would leave the fixed poundage allocation unchanged. This sub-option, when combined with Option 2b, effectively describes the current management regime for charter harvests. This option effectively protects the charter industry if biomass decreases because it would not share with the commercial sector in a harvest reduction. On the other hand, if biomass increases, the charter industry would not share in the increased availability of halibut. Estimates of biomass that were used to set quotas have increased since the original GHL was established in 2000. While that GHL has not changed with the increasing biomass, the charter industry has benefited from the increased biomass through increased resource availability and because the GHL has not been treated as a “hard cap.” Under a hard cap scenario, the industry would not automatically benefit from increased biomass with higher allocations. However, the industry might indirectly benefit from increased biomass through increased catch rates or fish size).

Sub-option 2 would allow the fixed poundage allocation to change over time depending on biomass and the IPHC’s combined commercial/charter CEY as defined by the 2003 Final Rule for GHL.<sup>6</sup> This feature

<sup>6</sup> The 2003 Final GHL rule established a total maximum poundage responsive to annual reductions in stock abundance. In the event of a reduction in either area’s halibut stocks, as determined by the Commission, the area

would allow the charter industry to benefit when biomass was high, but could leave the charter industry short of halibut in times of low biomass. Sub-option 2 would increase the similarity between the fixed poundage options and the fixed percentage options. That said, the fixed percentage options will adapt more quickly to changes in biomass or combined commercial/charter CEY allocations than the fixed poundage options with sub-option 2. One potential source of tension associated with this sub-option is that the step functions could result in a sudden compensated or uncompensated transfer from the commercial sector to the charter sector. For example, assume that halibut biomass increases to a level marginally below the point that would trigger the step-up function. In this situation, the commercial sector receives 100 percent of the increased combined commercial/charter CEY resulting from the increase in biomass. Now assume that in some later period biomass increases by the marginal amount needed to trigger a reallocation to the charter sector. The amount given to the charter sector could be greater than the marginal increase in CEY, which would leave the commercial sector with less halibut than they had received in the years where abundance was higher than the original level, but still below the threshold to trigger step function. This potential problem is endemic to a step-function system. Defined percentage options will not experience this problem, as they will adjust constantly based on the IPHC's allocations to the combined sectors. In this way defined percentage options are similar to share based systems in that they react to the system around them. However, in this case the "system" in question is halibut biomass.

Depending on the timing of the analysis the Council may wait to update all of the options to include the most recent year or five-year range for which data is available. For example, if the analysis starts in early 2007 the Council could revise the options to reflect 2005 and use 2001-2005 date ranges instead of 2000-2004 date ranges.

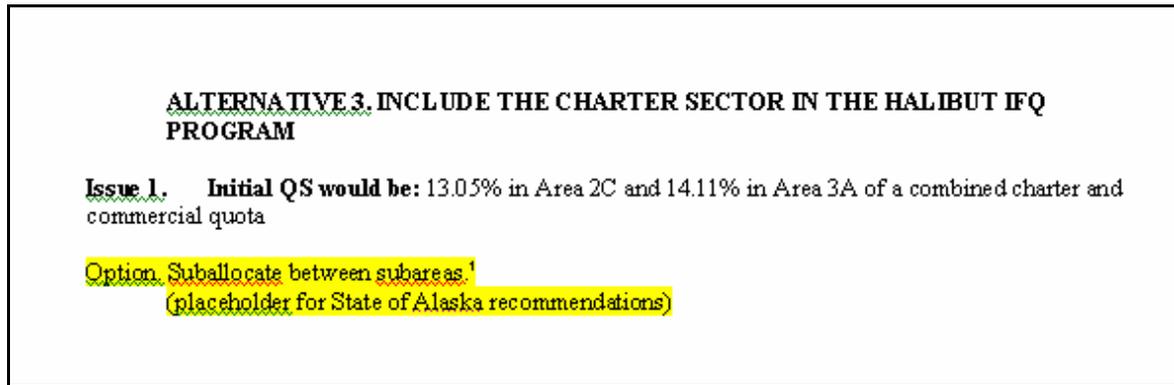
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GHL declines incrementally in a stepwise fashion in proportion to the stock reduction. In the 2003 rule, the GHL declines by fixed percentages if the stock abundance falls below the average 1999–2000 stock abundance. The 1999–2000 time frame was chosen because these were the two years most recent to the Council's action. The GHL in each area declines in stepwise increments based on a reduction in the CEY. This reduction would occur the year following the availability of the data indicating that a GHL in a given area has been exceeded. If abundance returns to its pre-reduction level (the 1999–2000 average CEY), the GHL would increase in the following year by commensurate incremental percentage points to its initial level.

## SUBAREA ALLOCATIONS

Issue 1 of Alternative 3 would allocate charter halibut on a sub-area level instead of at the area level. At the current time, the authors are awaiting discussion text and data generated by ADF&G staff and are only able to provide a general discussion of some of the issues that might arise with sub-area allocations.

Figure 2. Sub-Areas in Context



Note: For the entire alternative/option please see Appendix A.

### Area vs. Sub-Area Management

In general, sub-area management will increase the burden on regulatory agencies because if allocations are handed out on a sub-area level, then enforcement, tracking, and management are also going to have to work 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, sub-area managements may increase the risk of local depletions unless sub-area allocations exactly match biomass distribution. Given that biomass distribution may change over time, initial sub-area management allocations may not reflect biomass in a given sub-area over a longer time frame.

### Unit Market Effects

Sub-area allocations could result in management unit (unit, angler days, share-based permits) market effects depending on the rules for the transfer of units within the charter sector. For example, an option within Issue 5 of Alternative 3 would allow unit transfers to flow freely within the charter industry. If selected, this option would mean that some sub-areas could conceivably watch their unit transfer to other more profitable areas where demand for unit is higher. While allowing sub-area unit 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, assume that unit 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.

If the reason for sub-area allocations is to ensure local communities are able to benefit from use of nearby resources and are able to maintain a viable charter business then transferability may not provide for this benefit because it allows businesses to sell their rights to other communities. The market would take care of some of these issues if the community primarily used remote waters; however communities that share the same waters would be in competition with each other for area quota. For example, a community that has high charter angler volume would want to buy sub-area allocation from a community with less angler volume (i.e., Juneau vs Hoonah).

### **Ports vs. Fishing Areas: Sub-Areas Definitions**

In some locations, operators from different ports fish in the same areas. Thus, subareas can be defined on the basis of the geography of the waters fished or the geography of the port of landing (or port of origin). If the point of subareas is to disperse economic benefits, then a definition based on the port of landing is most appropriate, because that is where the economic benefits accrue. No exclusive right to any particular waters needs to be assigned. For example, although there is overlap around Shuyak Island between Cook Inlet and Kodiak boats, the economic benefits accrue in the Cook Inlet and Kodiak subareas, and there is no need to keep these fleets from fishing the same waters.

### **Sub-Area Growth Rates**

Sub-area allocations can be tailored to the growth rates of specific sub-areas without changing the total area-wide allocation. For example, Kodiak is often discussed as a community with a still-developing charter industry, while charter industries in 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 QS per operator/current seat/unit-of-measure, than more mature markets. This approach would allow faster 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 per operator/current seat/unit-of-measure. 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. NOAA Fisheries staff have noted that 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).

#### *Impacts on Local Abundance and State Managed Species*

Subarea allocations of percentage or fixed quotas should also take into account differences between subareas in relative abundance of halibut and availability of state managed species, including salmon and groundfish. For example, suppose eastern PWS is recognized as having an emerging halibut charter fleet, and is given additional room to grow. Halibut habitat is lacking in western PWS and the charter fleet there has a relatively low catch rate. By the same token, the area is high in rockfish habitat, particularly for some of the oldest, slowest-growing species (yelloweye, shortraker). An increase in charter effort would further depress halibut local abundance and increase conservation concerns for rockfish.

## PROPOSED FINANCE MECHANISMS

### Description

Staff notes that this issue would not be part of a proposed regulation. However, Stakeholder Committee members have raised the issue in the past and this paper has been asked to discuss six potential options outlined by the Stakeholder Committee for financing any allocation that exceeds the current guideline harvest level (see Table 5). In addition, these options could also be used to finance additional halibut quota should industry demand exceed the allocation intended in this action. A permanent mechanism would ensure compensated transfers between both sectors and a whole market. If kept as part of the Council's alternatives, this issue would likely be addressed in an appendix.

**Table 5. Finance Mechanisms**

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

The authors note that the discussed financing mechanisms have not been vetted by legal counsel and that the discussion of these options here in no way indicates that the options are legally feasible. The legal and regulator details are largely unknown at this point and will need future exploration by state and federal agencies.

### Discussion

Many of the six options are variations on a central theme and some could better be considered parts of a program as opposed to whole and complete financing mechanisms. For example, a state bond sale cannot happen without a revenue source such as a state charter stamp. It may make more sense for Option 1 to be a state bond sale financed by a charter stamp than to consider the bond sale by itself. Additionally, a private entity purchasing QS is the same as a private business improvement district if the private entity must tax member organizations to fund debt repayment. Staff recommends that this set of options be structured to consider the type of entity that will hold the QS first, with repayment scheme sub-options below. This restructuring would lower the number of overall options and make greater progress towards defining a workable compensation system.

Finally, any option that allows the State to hold commercial QS/IFQ for the charter fleet as a whole will require an amendment to the commercial IFQ program.

### State Charter Passenger Stamp

A State charter stamp could be one of the least complicated options to institute because a precedent for the stamp already exists within the state recreational fishing licensing system. Most anglers who wish to fish for anadromous king salmon must purchase a yearly stamp and affix it to their license. A similar system could be required of those wishing to fish for halibut from a charter vessel. An important question that policy makers will face is whether this stamp will be a charter passenger stamp (applying to all

charter passengers in the state), a saltwater charter passenger stamp (applying to all saltwater charter passengers in the state), or a halibut charter passenger stamp (applying only to charter passengers specifically targeting halibut). A stamp requirement on all charter passengers, both fresh and saltwater, would generate the most revenue. However, this system would tax anglers and businesses that are not targeting halibut. The same problem would exist for anglers who specifically target salmon, rockfish, or other non-halibut species. They represent potential revenue sources as charter consumers, but requiring them to purchase a charter stamp would be taxing them for a program which would not benefit them. Thus, potentially the simplest option would be to require the purchase of a halibut charter stamp for anglers going on a halibut charter. Additionally, it might also make sense to require the possession of a stamp for those who wish to retain halibut even on a non-halibut charter.<sup>7</sup>

Policymakers will face certain questions on the stamp program's design. For example, will a stamp be an annual purchase as it is for Alaska residents purchasing a king salmon stamp? Or, will anglers be able to purchase a stamp that is good for a number of days as it is for non-Alaska residents purchasing a king salmon stamp? Revenues may be higher if a new stamp is required for each day of fishing depending on the ratio of the daily price vs. a theoretical annual price.

Program longevity is another consideration. Will this program sunset after the program has paid for the initial reallocation? Or will the program build up a reserve fund to purchase future halibut quota from the commercial sector? The longer the program is in existence the higher the potential that the program's mandate will be expanded and the revenue will be diverted away from the original purpose. If the goal of the program is simply to pay for the reallocation, then it might make sense to build a sunset clause into the program. This clause may be particularly useful if the initial allocation provides the industry with halibut that it can use in the first years after reallocation. Theoretically, this halibut could be leased back to industry, which would shorten the stamp program's life and its effect on businesses and consumers.

Will the stamp program operate prior to the reallocation or will it begin in the same year as the reallocation? The answer to this question could have important implications for the program's long-term cost. If the program operates before the reallocation, it has the potential to build up a portion of the money required to fund the reallocation. If the program does not build up all of the money required for the reallocation, or if the stamp program does not begin before the reallocation, then the funds for the reallocation will initially have to come from another source such as revenue-backed bonds. As with any major consumer purchase, the higher the portion of the money that has to be paid back at interest; the higher the overall costs of the program. Thus, it makes some sense to consider requiring a stamp and placing the revenues in escrow to lower the overall costs of the program in the long-run.

A charter stamp program also solves the problem of free riders that other options would face (see below). A state program would cover all charter fleet boats and benefit them relatively equally. In theory, all boats would have anglers paying to help cover the cost of the program. Under other options, such as a private equity purchase, a sub-group of boats would pay for halibut quota, but non-members have the potential to benefit from the group's purchase. For example, assume that individual boats could purchase a quota and turn the quota over to a common pool. The profit-maximizing incentive under this structure would be to allow others to do the purchasing and then benefit from the common pool. A state charter stamp program avoids this incentive because, theoretically, all anglers on all charter boats would be contributing to this pool.

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<sup>7</sup> We note that halibut bycatch is unlikely while targeting salmon and that charter trips specifically targeting rockfish or other non-halibut species are relatively uncommon.

## **Private Entity Purchase with a Lease Back Provision**

This option would allow private entities to purchase commercial QS/IFQ and convert them to a charter allocation. The option contains a provision to lease back unused allocation at the end of the charter season to maximize its value. There are two basic structural options for working a compensated reallocation. The first is a government-run system such as a state charter stamp program leading to the government holding QS for the charter industry and deciding whether unused QS should be leased back to the commercial sector in any given year. The second basic structure is a private entity purchasing the QS and managing the program, which, in this option, includes a lease back provision.

If the private entity has to raise money by taxing its members, then the advantages and challenges of that organization are exactly the same as those described below when describing the private Business Improvement District. A private entity which already has cash on hand to purchase QS would have a substantial advantage over a structure that has to finance the purchase of QS because cash on hand eliminates the need for interest-bearing loans.

The lease-back provision included specifically in this option should be seriously considered with a potential financing structure. Under this provision, the managing entity could choose to lease unused QS if it became clear that the charter industry was not going to use it before the end of the traditional tourist season. The lease back benefits the charter industry by allowing it to convert unused QS into cash, which can be saved to lease more QS in the future, or used to pay down acquisition debt faster than expected. The lease back benefits the commercial industry by allowing it access to more halibut QS than it would otherwise be able to access. The major challenge facing the lease-back system is that making the decision to lease back QS means that the management entity and ADF&G have to be secure in the knowledge that there are QS to be leased back. In other words, a lease-back provision requires near real-time management so that the decision to lease back quota is valid for the charter industry and fishery managers. Any decision to allow leasing back would require a reporting system similar to commercial fish tickets or an electronic reporting system.

As noted in the Business Improvement District (BID) discussion below, private entities will face challenges with free riders, the question of whether the private entity represents an area or a sub-area, and organizational questions.

## **Business Improvement District (Tax on Trips for a Dedicated Purpose)**

Staff recommends that the Council clarify this option because a BID can take multiple forms, and a tax on trips for a dedicated purpose is a different concept. This would be an irregular use of the BID mechanism. Conventionally, a BID is a finance mechanism that is utilized for urban redevelopment and downtown revitalization. A BID is tied to a specific geographic area and requires property owners within the boundaries of a designated area to vote on a special assessment in return for a higher level of public services. Since the 1970s, downtown and central business districts across the U.S. and Canada have used BIDs to assess properties within a defined area for a higher level of amenities. Revenues from these property assessments within the defined area are directed back to the area- generally a downtown business area- to finance a wide range of services. These services include such things as sanitation, security, maintenance, marketing, business attraction, parking and special events. BIDs are utilized as economic development finance mechanisms to revitalize downtown retail and business areas for the overall health and viability of a community. Imposing a tax on trips through a BID would not be consistent with the traditional use of the BID in financing public services for a collective group of property owners involved in retail and business sector.

A public BID faces numerous hurdles in this instance, including:

- Coordinating multiple municipalities to participate in the program
- Receiving public approval for the BIDs in multiple municipalities
- Overcoming the fact that a public BID would tax businesses not directly linked to the charter industry
- Calculating a different tax policy for each municipality to ensure that each municipality pays its fair share to the program without paying more than its fair share.

We think that the magnitude of these issues would render a public BID a non-starter with some communities, and the public BID would only be fair if all communities were involved.

In a private form of a BID, groups of businesses tax themselves for a specific purpose without involving other business in the same area. In this way, it would seem that this option has the potential to be nearly the same as the option above. For the purposes of this alternative, a private BID would seem to be an easier solution than a public BID, without sub-areas which would involve creating taxation districts in numerous communities with differing tax policies. A private BID, in the form of a tax on trips for a dedicated purpose, is very similar to the Private Entity Purchase option and could be a component of that option. Under this type of program, the charter industry would tax itself on a per-trip basis (or by some other means) and then use that money to purchase QS/IFQ. One of the advantages of the private BID is that it would not directly involve municipalities, voters, or non-charter businesses. On the other hand, it would require a stable, organized, regional (or local area) organization(s) capable of recruiting business to join, collecting the taxes, administering the program, and dealing with any unharvested QS. A major problem that these organizations will face is free riders. Free riders are those that benefit from the works of others in solving a common problem without making a contribution. For example, say a private organization develops in Area 2C to purchase enough halibut QS to support industry in that area. The members of this organization tax themselves on a per customer trip basis to generate the funds necessary to purchase the QS. It is very likely that unless membership in this organization is mandatory, that some operators will opt not to join the group. Yet, if the purchased QS supports the entire industry in the area, these non-members will benefit from the members' self-taxation. Thus, a private organization is likely to face a problem with these free riders and this situation raises the following questions:

- Is there a legitimate legal mechanism to require membership in the organization and limit the free rider problem?
- Can QS/IFQ, the organization purchases, only apply to organization members? It would seem from a management standpoint that tracking the harvests of members and non-members in a real-time environment could be difficult and expensive.

Another set of questions arises as to how many private BIDs would be appropriate and necessary to manage these programs. It is conceivable that one organization could manage the program in both Area 2C and 3A, and this approach would lower administrative costs. At the same time, if the alternative pursues a sub-area management style then it might make sense for operators to form private BIDs on a sub-area level. This arrangement would allow the BIDs to change the taxation rate to fit their particular area's needs. For example, a charter BID organization in a faster growing sub-area could tax its members at a higher rate to account for the need to purchase more QS/IFQ.

As with the Stamp option, when a private BID would start operating has important implications for the program's long-term cost. If the program operates before the reallocation, it has the potential to build up a portion of the money required to fund the reallocation. If the program does not build up all of the money required for the reallocation, or if the stamp program does not begin before the reallocation, then the

funds for the reallocation will initially have to come from another source such as revenue-backed bonds. Thus, it makes some sense to consider starting the BID before the reallocation and placing the revenues in escrow to lower the overall costs of the program in the long run.

### **Compensated Transfer of Unused Charter Allocation**

This option may be more appropriate as an attribute of another program, as opposed to a separate stand-alone option. As noted in the section on the effect of each allocation option, some of the allocation options are likely to result in unharvested halibut for a number of years until industry growth catches up to the overage. Thus, under some options, but not all, there would be some unused charter allocation that might be available for a compensated transfer or lease back to the commercial sector. However, under options providing an allocation less than current harvest, the industry is likely to be looking for funds to purchase additional QS and will not be in a position to lease QS back to the industry. In Area 2C, Option 1a is the only option that would provide significant quota pounds above 2004 consumption levels while the other options are at or below current consumption. In Area 3A Option 1a, 1b, and 2a provide significant quota pounds above 2004 consumption levels, while the other options are at or below current consumption.

### **State Bond Sale**

This option may be more appropriate as an attribute of another program, as opposed to a separate stand-alone option, because bonds are debt instruments and are repaid through revenue streams. Thus, it is inappropriate to consider bond sales without considering the revenue stream that will repay the debt and a state bond sale only makes sense if a state agency is going to hold the QS/IFQ. As noted above, a state-bond offering could fit naturally within a state charter stamp program. Alaska recently experienced great success with the revenue bonds offered to finance the state's construction of new hatcheries. In 2005, the state issued \$67 million in revenue bonds to fund the construction of new hatcheries in Fairbanks and Anchorage. The bonds sold well because of the year-over-year growth of the number of sport fishing licenses sold to anglers. A surcharge on the licenses will help pay back the bonds. The state has estimated that the surcharge will generate \$6 million per year in revenue and the surcharge will sunset when the state completes the bond repayment.

There are other methods for financing a state revenue bond. For example, the state could require halibut charter operators to purchase a new license with the proceeds of license sales supporting the state bond revenues. One issue policymakers would face when designing this program is whether the fee should be structured to the size of the business. A single flat fee is simple, but smaller businesses who carry fewer anglers per year would contribute disproportionately to repaying the bonds. However, Issue 4 of Alternative 2 creates permit classes and considers options such as assigning angler days to charter businesses based on business history. If the size of the license fee were based on the number of angler days or the permit class, then the amount each business paid would be more proportional to the size of the business than under a flat fee system. Both this system and the charter stamp would likely require legislative action. The revenue bonds for the new hatcheries and the accompanying license fee increases were supported by House Bill 252 in the 2005 legislative session.

### **Federal Funding**

This option suggests seeking federal funding/grants/stamp to fund entities to purchase QS and convert them to charter allocation. This option faces several substantial obstacles, not the least of which is increasing competition for federal discretionary funds and declining congressional earmarks from Alaska's congressional delegation. Federal discretionary funds have faced increasing pressure in recent years as the wars in Afghanistan and Iraq continue, the Government aids areas affected by Hurricane

Katrina, the current administration cuts taxes, and social programs such as Medicare, Medicaid, and Social Security grow with an aging population. At the same time, Senator Ted Stevens no longer chairs the powerful Senate Appropriations Committee, and overall earmarks to Alaska projects are in decline. Thus, pursuing this option would mean participating in an increasingly competitive marketplace for a shrinking pool of federal dollars. Other options may represent easier paths.

If this option is chosen, there are several questions that would face this option during the design phase. These include:

- Will this money come from a direct federal appropriation, or can a funding source be identified within the federal structure that would take advantage of existing programs?
- Will the allocation be held by a private organization representing the charter industry, or will the state hold the allocation?
- How much money is needed to secure the allocation?
- Will the money have to be repaid and, if so, what will be the financing mechanisms?
- Will the pursuit of the money delay the implementation of the program?

## PERMIT CLASSES

### Description

This section discusses the implications of the proposed permit class programs and associated sub-options, some of which contain aspects of share-based systems. This component is part of Element 8, Issue 4 of Alternative 2 before the council and reads:

Figure 3. Permit Classes in the Context of the Alternative

**Issue 4. LIMITED ENTRY PROGRAM<sup>1</sup>**

**Elements of the program**

2. **Permits<sup>2</sup>** may be held by U.S. citizens or U.S. businesses with 75 percent U.S. ownership of the business<sup>3</sup>. Business may receive multiple permits associated with vessels owned by a business. Currently licensed vessels may be “grandfathered” above proposed limits until any change in ownership.
3. **Permits will have separate designations for Area 2C and Area 3A.**
4. **Permit would be issued to limited entry (moratorium) permit holder only (automatically or upon application)?<sup>4</sup>**
5. **Transfers** of permits (permanent) would be allowed
6. **Permits** may be stacked up to use caps<sup>5,6</sup>
7. **Permits** must be renewed annually<sup>7</sup>  
**Evidence of participation** - any ADF&G logbook entry with recorded bottomfish statistical area, rods, or boat hours

**8. Permit class**

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)

Note: For the entire alternative/option please see Appendix A.

### Discussion

The design of the options is intended to weed out marginal players and possibly transfer their permit to underdeveloped communities as mentioned in Issue 5 of Alternative 2. The permit classes outlined in Option 2 above would create transferable permits (Class A), where transferability depended on the number of fishing days allowed per year. Class B permits would be assigned to operators that do not make the qualifying threshold. One assumes that these days are effort levels based on history and that operators would attempt to qualify for a Class A or B permit as that element is not clear in the issue’s current written form.

Finally, the author notes that this element makes no mention of the potential moratorium permit under consideration by the Council. It would seem logical to make possession of a moratorium permit a condition of receiving a permit under this option.

## SHARE-BASED PERMIT ASSIGNMENT

### Description

Element 8, Issue 4 of Alternative 2 consists of three main share permit assignments based on trips, rods, or angler days. The angler days option is the only option that by itself controls industry growth by controlling the only way operators can increase harvest: adding more passengers. Both the trip permit and the rod-endorsement option leave room for harvest growth when considered individually. For example, operators would be able to increase harvest under a trip permit option by increasing the number of passengers they take per trip. Under a rod-endorsement option (where the number of passengers fishing at any one time is capped), an operator can increase revenue and harvest by taking more trips or by taking more passengers than can fish at any one time. Two ways to control harvest within these options is to consider the angler-days system or a combined trip permit and rod-endorsement system. Even in this case the angler day system provide more complete control because an operator can still increase harvest by taking more passengers than can fish at any one time. Using just Option 1 (the trip system) or Option 2 (the rod-endorsement system) would allow operators to increase pressure through the mechanisms described above. Staff recommends the use of the angler-days sub-option because it is the only one that provides complete control over harvest pressure and because the system would work in a manner similar to established QS systems. Element 8, Issue 4, of Alternative 2 is described below. Please see Appendix A for a complete description.

One element common to all option is what happens in the case of a charter vessel going out on a planned halibut trip only to have to head back to the harbor without being able to fish due to stormy weather. Has the operator used up his halibut-trip/daily rod usage/angler days for that day? On the flip-side of that situation, what will stop an operator from not recording his halibut-trip/daily rod usage/angler days if he takes clients on a halibut trip but they do not catch any halibut?

### Discussion

#### Option 1-Permits Based on Trips

This option reads:

Option 1. Based on **trips** from 1998 - 2005 logbook records of total groundfish effort days per season.

- Suboption 1. Average of the 3 best years.
- Suboption 2.
  - i. Best year and
  - ii. Must have a minimum of 10 annual trips for 3A, and minimum of 6 annual trips for 2C (eliminates Area 3A Class H and Area 2C Class G logbooks)

**Table 6. Example Permit Classes**

Area 2C		Area 3A	
Permit Class	Trips	Permit Class	Trips
-	-	Class H	<10
Class G	<6	Class G	10 – 25
Class F	6 – 10	Class F	26 – 35
Class E	11 – 25	Class E	36 – 45
Class D	26 – 35	Class D	46 – 55
Class C	36 – 45	Class C	56 – 65
Class B	46 – 55	Class B	66 – 75
Class A	56 – 65 ceiling	Class A	76 – 85 ceiling
Unclassified	> 66 trips	Unclassified	> 86 trips

Staff notes the following discussion points:

- Staff request clarification on the following sentence “on **trips** from 1998 - 2005 logbook records of total groundfish effort days per season.” Is the option based on trips or groundfish effort days? Clarifying the sentence would be helpful when preparing the analysis.
- At present, Option 1 establishes a permit, but it does not specifically designate the role of the permit. The permit is designed to limit the number of trips a vessel could take in a season by assigning operators to a permit class based on history and then allowing them to take a number of trips per year equal to the top part of their permit’s range. As mentioned above, limiting trips is one way to control harvest. However, under a trip limit, the incentive is for operators to maximize the number of passengers on any one trip. Thus, controlling the number of trips provides only a partial control of effort. If the purpose of this option is to provide a more complete control on effort, then this option should be combined with Option 2—the rod permit endorsement, which controls the maximum number of passengers on a trip.
- The option suggests classifying permits by the number of trips taken in the past and that each permit class would accommodate a range of past-trip averages. Given the issues associated with past logbook data, a ranged approach seems reasonable as there is considerable uncertainty associated with calculating very specific trip averages. However, it would likely be prudent to conduct the analysis prior to creating the actual permit classes, because the analysis might reveal natural breaks in the distribution of the data, which could be used to create the permit classes. For example, data could show that operators break into three narrow groups taking a low, medium, and high number of trips per year with “empty gaps” between each group. In this case, it might make sense to have three permit classes. One issue with ranged groups is that if the regime has very broad ranges in the same class and many vessels near the bottom of the range, then the regime could result in a large increase in the total number of trips taken. Again, it would seem prudent to let the data inform the decision on the number and breadth of the permit classes. Finally, it has been suggested that it might be possible to classify permits by operation type (e.g., weekend only, every-day charters, number of days per week, etc.). This approach could be worth exploring through available data.
- Sub-option 1 and Sub-option 2 would calculate the trip averages used to qualify operators for different permit classes. Sub-option 1 would use the average of the three best years from 1998-2005 while Sub-option 2 would use the best year and eliminate operators with less than a minimum of 10 annual trips in Area 3A, and less than a minimum of 6 annual trips in Area 2C. Thus, sub-option 2 would prevent some marginal operators from receiving permits. While the annual harvest from this

group is likely to be small, the elimination of these operators would likely help to mitigate any increase through the use of ranges in defining permit classes.

- Staff note that this option makes no mention of the potential moratorium permit under consideration by the Council. It would seem logical to make possession of a moratorium permit the de facto permit for the limited entry system if one is actually needed. Staff further note that under share based systems the possession of the share effectively acts as a permit and that the requirement of both share and permit to participate in a fishery duplicates effort.

## Option 2-Rod Permit Endorsement

The rod permit endorsement would limit the number of rods that could be fished on a vessel at any given time. As noted above, limiting the number of anglers on a boat is one component of controlling harvest. However, under a rod-endorsement system, the incentive for operators shifts to maximizing the number of trips in a given season. Thus, controlling the number of rods per trip provides only a partial control of effort. If the purpose of this option is to provide a more complete control on effort then this option should be combined with Option 1 which could control the number of trips. This option reads as follows:

Option 2. Based on **Rods**

**Table 7. Rod-endorsement Sub-options**

Sub-option Number	Endorsement
1	Equal to the maximum number of rods fished in any one day on the vessel.
2	Equal to best year of 1998-2005 for total number of client rods fished divided by effort days in the chosen season to determine the rod endorsement.

### Rod-endorsement leases

Sub-option 1. Allow transfers, limited to rod-endorsement caps and within permit class as follows

<u>6 clients</u>	<u>highest number on any trip in 2004 or 2005</u>
uninspected (6-packs) vessels	inspected vessels (but not less than 4)
new construction (uninspected or inspected vessels)	uninspected >100 gross tons (“Super-T”)
constructive loss	constructive loss

Sub-option 2. Allow unlimited transfers

Suboption. Substitute angler day permits for rods in above options

The author notes the following discussion points:

### **Sub-option 1**

The first sub-option would limit the number of rods fished to the maximum number of rods fished in any one day on the vessel. The effect of this sub-option would be felt most keenly by those who consistently limited the number of rods fished on their vessel to a number below the legal maximum. While these individuals could still carry more passengers than their rod endorsement they would only be able to fish as many rods as allowed under their endorsement. This feature could put them at a competitive disadvantage to another business with the same number of seats on board but a higher rod endorsement. This scenario assumes that transfers are allowed. It is not clear what the extent of this effect would be and how many latent seats would be eliminated. The phrase “any one day” means that if the operator

described above fished just one day at maximum capacity, then the sub-option would be much less effective in eliminating latent capacity.

One question about sub-option 1 is whether crew rods would count toward the maximum fished in any one day on the vessel. In this case, a six-passenger vessel operated by a master and mate could conceivably have 8 rods fished in one day. In Area 2C, a charter vessel may only fish as many rods as there are paying clients onboard, up to a 6 rod maximum. Thus, they only fished 6 rods in this example. If you just go by the number of anglers that fished a rod on a trip, then say an inspected vessel in Area 2C with 12 clients onboard and 3 crew could technically say they fished 15 rods on a trip if everyone aboard fished at sometime during the trip. Including crew would effectively raise the rod endorsement of the vessel above the maximum number of passengers the vessel could legally carry. Additionally, if crew members are banned from fishing on the same trip as passengers, then the operator would have permanent excess capacity which might be sold to another operator. This arrangement would mute the option's effect on excess capacity.

Another question about sub-option is the definition of "a day." In this sub-option does "day" mean "trip" or does it mean an actual 24 hours period. A number of operators in both Areas 3A and 2C operate more than one trip in a given day. If the NPFMC means the maximum number of rods in a single trip, then multiple-trips-per-day operators would find themselves short of the number of rod endorsements necessary to continue their current business practices. On the other hand, a broadened definition of a day could result in an excess number of rod endorsements because, as noted in NPFMC 2006, a percentage of operators normally utilize a trip-per-day business model but occasionally make multiple trips in one day during any given season. For example, assume a six-passenger operator generally runs one trip per day, but once during the qualifying period the operator ran two full-capacity trips per day. Under this scenario, the operator would receive a twelve-rod endorsement when the vast majority of his business model depended on fishing six rods or fewer during a given business day. This specific interpretation could lead to a much higher number of endorsed rods than are currently fished by industry in a given year. For example, if the same operator received a 50-days-at-sea permit under Option 2, the difference between the definition of a trip versus a day would be 300 rod days per year. The operator could double the size of their business (other circumstances permitting).

There are also enforcement issues associated with rod permit options. It is relatively easy to hide excess rods on a vessel and it will be difficult for on-water enforcement units to effectively police widely dispersed vessels. While banning additional rods on boards is an option, carrying additional rods may be valid from a charter perspective (e.g., replacement rods in case of breakage). Thus, such a limitation is likely to be highly unpopular.

## **Sub-option 2**

The second sub-option would limit the number of rods fished at any one time to a number equal to the best year of 1998-2005 for a total number of client rods fished divided by days of bottomfish effort in the chosen season to determine the rod endorsement. Staff's interpretation is that "best" focuses on the total number of client rods fished because of the "chosen season" language in the sub-option. Under this interpretation of the sub-option, an operator with a history as shown in Table 8, would have a maximum rod endorsement equal to the operator's average in 2002 because this year was the operators "best" year for total number of client rods. However, it was not the operator's best year for the number of rods per days of bottomfish effort. This operator's best year for average rods per effort day was 2005 when the operator had fewer total client rods, but a higher average number of rods per trip. The effect of this interpretation is that the operator would receive 5 rods per effort day under the current interpretation. If

the NPFMC’s intent is for the operator to receive the year between 1998 and 2005 with the highest average number of rods per effort day, then the sub-option should be clarified.

**Table 8. Effect of Rod Permit Sub-option 2.**

Year	Days of fishing effort	Total Client Rods	Average Trip
1998	47	220	4.7
1999	37	196	5.3
2000	36	176	4.9
2001	33	168	5.1
2002	48	230	4.8
2003	46	179	3.9
2004	40	208	5.2
2005	34	194	5.7

Where the word “best” applies is important because the total number of client rods fished in a year is not solely driven by having a high average number of clients. It is also determined by how many days of bottomfish effort an operator can safely obtain. The weather in some years may allow fewer days of bottomfish effort than the weather in other years. Operators with relatively low fixed costs, but higher relative variable costs, will do better when they have a higher average number of clients per trip rather than when they have many trips with lower averages. The opposite may also be true. For some operators, depending on their business structure, they may fare better financially in a season with more days of bottomfish effort and a slightly lower average rods per trip than they would in a year where the weather allows for significantly fewer days at sea with a higher average number of rods per trip. The variation in days of bottomfish effort per year is likely to be higher in areas where operators see more weather-related cancellations than in areas where operators have more options for fishing during rough weather. Thus, the author requests clarification on this sub-option. Overall, the focus on the highest number of days rather than the highest average of client rods to days would result in a lower average rod endorsement for some operators.

Generally speaking, this option will be more restrictive than sub-option 1 because all an operator has to do to maximize their rod permit endorsement is to have had one day during the qualification period at maximum capacity. Logbook data included trips with up to 60 client and crew rods fished. This sub-option requires operators to have a high number of days at sea combined with a high average number of rods per trip in order to receive a high permit endorsement. If the operator’s best year, as measured by total rods fished, coincides with a year of lower average rods per day, then the operator could see a permanent reduction in boat capacity. For example, assume a six-pack operator has a long-term average of 4.6 rods per day, but in the best year as measured by total client days averages 4.4 rods per day. Under normal rounding conventions, the operator would receive an endorsement for 4 rods per day or a roughly 10 percent reduction in comparison to actual long-term effort. Thus, rounding will be an important issue for rod endorsements. Under this management regime, it is now impossible for the operator to ever again achieve their long-term average because getting to 4.6 rods per day requires having five passenger and six passenger days. However, the operator cannot even have five or six passenger days unless they are able to purchase additional rod endorsements. Thus, for this operator to simply get back to where they were before the regulation they have to purchase rod endorsements and the sub-option does not currently include language about transfers.

Again, clarification is needed with this sub-option with regards to the definition of a day of fishing effort. How are regular, or even occasional, multiple-trip-per-day operators treated under this sub-option?

Clarification is also needed as to whether operators could increase their original permit endorsement through rod endorsement leases or if the permit endorsement is meant to serve as a permanent cap.

### Rod-endorsement Leases

The option contains two rod-endorsement lease sub-options. The first allows transfer within a permit class and is subject to rod-endorsement caps. As noted above, the author has requested clarification as to whether the initial rod endorsement above is meant to serve as a permanent cap or whether operators can lease additional rod endorsements above their original allocation. The alternative as it currently stands does not specifically outline rod-endorsement caps. The first sub-option divides endorsement into two groups. The first group consists of six-packs and newly constructed vessels with an allowance for constructive loss. The second group consists of larger vessels.

The second sub-option allows unlimited transfers of rod-endorsement leases. It is not clear why the alternative includes a limit on transfers. From a market perspective, the second sub-option would be more efficient as it will allow the unfettered transfer of rod-endorsement permits between those who value them the most and less efficient operators.

**Table 9. Rod-endorsement Lease Sub-options**

Sub-option Number	Endorsement								
	Allow transfers, limited to rod-endorsement caps and within permit class as follows								
1	<table border="0"> <tr> <td style="padding-right: 20px;"><u>6 clients</u></td> <td><u>highest number on any trip in 2004 or 2005</u></td> </tr> <tr> <td>uninspected (6-packs) vessels</td> <td>inspected vessels (but not less than 4)</td> </tr> <tr> <td>new construction</td> <td>uninspected &gt;100 gross tons ("Super-T")</td> </tr> <tr> <td>constructive loss</td> <td>constructive loss</td> </tr> </table>	<u>6 clients</u>	<u>highest number on any trip in 2004 or 2005</u>	uninspected (6-packs) vessels	inspected vessels (but not less than 4)	new construction	uninspected >100 gross tons ("Super-T")	constructive loss	constructive loss
<u>6 clients</u>	<u>highest number on any trip in 2004 or 2005</u>								
uninspected (6-packs) vessels	inspected vessels (but not less than 4)								
new construction	uninspected >100 gross tons ("Super-T")								
constructive loss	constructive loss								
2	Allows Unlimited Transfers								

### Angler Day Sub-Sub Option

Suboption. Substitute angler day permits for rods in above options

#### Transfers

Option 1. Angler days not transferable

Option 2. Angler days fully transferable:

1. Permanent: must go through NMFS (RAM division)
2. In-season transfers: allowed between charter businesses

This sub-sub-option would substitute angler day permits for rods in the above options. In this case, there would be no need to combine the option with the permit classes because using angler days provides the most complete control mechanism for controlling harvest as long as daily bag limits are regulated. If angler days are substituted for rod endorsements, the ownership of angler days becomes the de-facto permit.

### Option 3-Angler Days

The angler day option (Option 4 of Issue 5 in Alternative 3) would limit operators to a yearly number of angler-days where an angler day is defined as one client fishing bottomfish/halibut in one day. The initial issue would award angler day units from ADF&G logbook data as calculated by one of the methods

outlined in Table 10. How an angler day system would work beyond that has yet to be defined. The discussion section below discusses some of these issues.

**Table 10. Angler Days**

<b>Sub-option Number</b>	<b>Method</b>
1	Total angler-days during 1998-2005
2	Average angler-days during best 3 years from 1998 – 2005
3	Total angler-days during best 3 years from 1998 – 2005

Note: This option also includes two sub-options one of which does not allow angler days to be transferable and the other which does allow angler days to be transferable.

### **Sub-option 1-Award based on Total Angler-Days during 1998-2005**

Sub-option 1 is intended to reward longevity and activity and would generate a total of angler days between 1998 and 2005. It is unclear how this sub-option would operate from that point. A logical conclusion would be that individual totals would be calculated for operators and that amount would be divided by the overall total to create a share of the overall total. Again, what the percentage would be applied to is currently undefined but a logical answer might be a total number of angler days allocated for the charter fleet. In this way, the angler day units would in practice operate in a manner similar to an IFQ program with the total number of angler days varying each year with biomass. One problem with this approach is that if the number of angler days is not correctly set, then the charter fleet might not be able to use its entire allocation or, conversely, there might be too many angler days for a given amount of allocated halibut. These problems raise the previously discussed issue of in-season leasing of unused charter allocations.

An issue with this approach will be the use of 1998-2005 logbooks and all of the pluses and minuses of that data would apply to this sub-option. As discussed in several sections above, some operators do not generally catch groundfish and thus do not report groundfish effort in logbooks. The size of this industry segment is unknown, but the possibility exists that it could be a substantial portion of the sample universe because rockfish and lingcod are not always targeted or caught on halibut trips. Sub-option 1 would effectively undercount the effort of these individuals, leaving them short of the actual share of the angler days provided under the program.

Finally, staff notes that combining an angler day based share system with an allocation based on biomass may result in a very complicated and unwieldy system. For example, assume the Council pursues a percentage allocation system linked to biomass and combines it with a fixed angler day share system. In a situation where the biomass of halibut increases and the number of angler days remained fixed the potential exists for the industry to leave allocated halibut unharvested unless the daily bag limit for anglers increases as well. Hence, there is no guarantee that an angler day system will automatically allow the charter industry to harvest its allocation. Strong arguments can be made for the case that the Council pursues a percentage allocation and then it should also pursue a system where managers can change the number of angler-days to match changes in allocation. Effectively supply (e.g., the allocation) and demand (e.g., angler days allowed<sup>8</sup>) should adjust with each other if other items (e.g., the daily bag limit) are to remain fixed. It might be far simpler to attach the allocation to biomass and then let businesses compete for their share of passengers and the harvest. Having in-season or even pre-season changes in the number of angler days would be very disruptive to businesses that book a substantial portion of their

<sup>8</sup> When true demand for charter trips exceeds the number of angler days allotted the number of angler days becomes a proxy for demand.

business in the off-season. If the number of angler days were suddenly reduced, then it could be difficult for the businesses to adapt. Under a system that managed through allocation, the sector could conceivably enter the market to purchase additional QS in a decreasing biomass scenario, thus ensuring seats for their customers.

### **Sub-option 2-Average Angler Days during the Best 3 Years from 1998-2005.**

Unlike sub-option 1 and sub-option 3, this sub-option focuses on an average number of days instead of a total number of days. It is conceivable that the calculation for this sub-option could stop simply at the average of the operator's three best years from 1998 through 2005. The total across all operators would represent the complete pool of angler days. It is not currently known what this total would be or how it compares to current average angler day effort. It is at least conceivable that because the calculation would use everyone's best three years that the number of angler days in the pool could be greater than the number of anglers days that have been fished in recent years. However, given that harvest has been rising steadily, at least in Area 2C, it is also conceivable that this method could result in fewer angler days than generated in last several years.

Another method to use this calculation would be to use the average of the best three years from 1998 through 2005 to generate a total pool of angler days and then calculate an individual share based on those angler day units. This sub-option would then mimic sub-option 1, excepting that the original calculation method would be different. One aspect of this approach is that instead of having a fixed number of angler days, the number of angler days could be varied with biomass.

As with sub-option 1, the use of 1998-2005 logbooks will bring all of the pluses and minuses of that data.

### **Sub-option 3-Award based on Total Angler-Days during the Best 3 Years, 1998-2005**

Sub-option 3 is very similar to sub-option 1 and only differs by the initial calculation. In this sub-option, the formula would generate total of angler days from the best 3 years each operator had between 1998 and 2005. It is unclear how this sub-option would operate from that point. A logical conclusion would be that individual totals would be calculated for operators and that amount would be divided by the overall total to create a share of the overall total. Again, what the percentage would be applied to is currently undefined but a logical answer might be a total number of angler days allocated for the charter fleet. For a discussion the implications of this sub-option, please refer to the discussion of sub-option 1.

### **Transferability**

#### Transfers

- Suboption 1. Angler days not transferable
- Suboption 2. Angler days fully transferable:
  - 1. Permanent transfers must go through NMFS (RAM division)
  - 2. In-season transfers: allowed between charter businesses must go through NMFS (RAM division)

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## APPENDIX A

**DRAFT FOR STAFF COMMENT  
NORTH PACIFIC COUNCIL  
PERMANENT SOLUTION ALTERNATIVES AND OPTIONS  
Interagency Staff Recommendations  
JULY 2006**

**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:

<b>formula</b>	<b>Area 2C</b>	<b>Area 3A</b>
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%

Option 2. Fixed Pounds

<b>formula</b>	<b>Area 2C</b>	<b>Area 3A</b>
a. update 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 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 fall from 15 to 24 percent below its average CEY, then the allocation would be reduced by 15 percent. If the stock abundance were to fall at least 25 to 34 percent, then the allocation would be reduced by an additional 10 percent. If it continued to decline by at least 10 percent increments, the allocation would be reduced by an additional 10 percent.)		

Suboption. Suballocate between subareas.<sup>9</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

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<sup>9</sup> Develop local area management plans (LAMPs) on a separate timeline.

**Issue 2. 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)

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

#### 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 3. 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 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

## **Issue 4. LIMITED ENTRY PROGRAM<sup>10</sup>**

### **Elements of the program**

1. **Permits<sup>11</sup>** may be held by U.S. citizens or U.S. businesses with 75 percent U.S. ownership of the business<sup>12</sup>. Business may receive multiple permits associated with vessels owned by a business. Currently licensed vessels may be "grandfathered" above proposed limits until any change in ownership.

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<sup>10</sup> Military (Morale, Welfare, and Recreational) boats are exempted from QS program. They could be issued limited entry exemption permits

<sup>11</sup> Through initial issuance and transfers

2. **Permits will have separate designations for Area 2C and Area 3A.**
3. **Permit would be issued to limited entry (moratorium) permit holder only (automatically or upon application)?<sup>13</sup>**
4. **Transfers** of permits (permanent) would be allowed
5. **Permits** may be stacked up to use caps<sup>14,15</sup>
6. **Permits** must be renewed annually<sup>16</sup>  
**Evidence of participation** - any ADF&G logbook entry with recorded bottomfish statistical area, rods, or boat hours
7. **Permit class**  
 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)
8. **Share-based permit assignment(?)**  
 Option 1. Based on **trips** from 1998 - 2005 logbook records of total groundfish effort days per season  
     Suboption 1. Average of the 3 best years.  
     Suboption 2. i. Best year and  
                 ii. Must have a minimum of 10 annual trips for 3A, and minimum of 6 annual trips for 2C (eliminates Area 3A Class H and Area 2C Class G logbooks)

Area 2C		Area 3A	
Permit Class	Trips	Permit Class	Trips
-	-	Class H	<10
Class G	<6	Class G	10 – 25
Class F	6 – 10	Class F	26 – 35
Class E	11 – 25	Class E	36 – 45
Class D	26 – 35	Class D	46 – 55
Class C	36 – 45	Class C	56 – 65
Class B	46 – 55	Class B	66 – 75
Class A	56 – 65 ceiling	Class A	76 – 85 ceiling
Unclassified	> 66 trips	Unclassified	> 86 trips

- Option 2. Based on **Rods**  
 Sub-option 1. equal to the maximum number of rods fished in any one day on the vessel.

<sup>12</sup> Military (Morale, Welfare, and Recreational) boats are exempted from limited entry, but harvests still count against GHL

<sup>13</sup> The only tangible evidence is the ADF&G logbook, which requires meeting all state legal requirements

<sup>14</sup> a business can use, for example, two 6-packs license endorsements on one “Super-T” vessel

<sup>15</sup> Clarification is requested as to whether a permit that is stacked is always stacked with the other permit or whether the permit must continue to denote its original endorsement

<sup>16</sup> Permits could not be renewed if allowed to lapse (due to holder’s inaction to renew or because minimum activity was not met)

Sub-option 2. equal to best year of 1998-2005 for total number of client rods fished divided by effort days in the chosen season to determine the rod endorsement.

Rod-endorsement leases

Sub-option 1. Allow transfers, limited to rod-endorsement caps and within permit class as follows

<u>6 clients</u>	<u>highest number on any trip in 2004 or 2005</u>
uninspected (6-packs) vessels	inspected vessels (but not less than 4)
new construction (uninspected or inspected vessels)	uninspected >100 gross tons (“Super-T”)
constructive loss <sup>17</sup>	constructive loss <sup>10</sup>

Sub-option 2. Allow unlimited transfers

Suboption. Substitute angler day permits for rods in above options

Option 3. Based on **angler-days**<sup>18</sup>

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

Suboption 1. Total angler-days during 1998-2005

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

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

Angler endorsement leases

Option 1. Allow transfers, limited to angler endorsement caps

<u>6 clients</u>	<u>highest number on any trip in 2004 or 2005</u>
uninspected (6-packs) vessels	inspected vessels (but not less than 4)
new construction (uninspected or inspected vessels)	uninspected >100 gross tons (“Super-T”)
constructive loss <sup>19</sup>	constructive loss <sup>10</sup>

Option 2. Allow unlimited transfers

Suboption. Substitute angler day permits for rods in above options

Transfers

Option 1. Angler days not transferable

Option 2. Angler days fully transferable:

1. Permanent: must go through NMFS (RAM division)
2. In-season transfers: allowed between charter businesses

**9. 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

**10. Permit use caps, individually and collectively, with grandfather<sup>13</sup> provision**

*uninspected vessels:*

Option 1. 1 permit

*inspected and uninspected (>100 gt) vessels<sup>20</sup>:*

Option 1. 1 permit

<sup>17</sup> limited to the endorsement associated with lost vessel

<sup>18</sup> Permit endorsement of an angler day for every client fishing bottomfish/halibut in a day

<sup>19</sup> limited to the endorsement associated with lost vessel

<sup>20</sup> Inspected and uninspected vessels cannot be differentiated in ADF&G data; these limits were revised to match those in the moratorium analysis

Option 2. 5 permits  
Option 3. 10 permits

Option 2. 2 permits  
Option 3. 3 permits

**And ½ percent of revised Issue 11. Shared-based permit assignments (trips, rods, or angler days depending on option selected ).**

#### **ISSUE 5. Communities**

Option 1. For Areas 2C and 3A communities previously identified under Amendment 66, allow a community represented by a CQE to purchase between 1-10 limited entry permits per community through the CQE.

Option 2. A CQE representing a community, in which < 10 active<sup>21</sup> charter businesses terminated trips, may request a permit on behalf of a community resident.

Area 2C – use cap of 3 permits per qualified community

Area 3A – use cap of 5 permits per qualified community

Permits would have limited duration of 5 years after issuance of permit for use by any one individual.

Permits would be issued (10, 20, or 30) trips in Area 2C and (20, 40, or 60) trips in Area 3A

Suboption. Exclude communities from GOA FMP Amendment 66 list using the following criteria:

1. within 20, 40, 60, 80 nmi of major charter port or
2. more than 10-50 charter trips (any species) per year during 2004-2005 listing that community as port of landing
3. 1-5 number of charter (any species) businesses active in a community:

### **ALTERNATIVE 3. INCLUDE THE CHARTER SECTOR IN THE HALIBUT IFQ PROGRAM**

**Issue 1. Initial QS would be:** 13.05% in Area 2C and 14.11% in Area 3A of a combined charter and commercial quota

Option. Suballocate between subareas.<sup>22</sup>  
(placeholder for State of Alaska recommendations)

**Issue 2. QS recipients -** Initial allocation of QS would be issued to U.S. citizens or to U.S. businesses with 75 percent U.S. ownership of the business<sup>23</sup>.

**Issue 3. Qualification Criteria – Issued to interim (moratorium) permit holders only**

#### **Issue 4. 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

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<sup>21</sup> “Active” is defined as 20 or more charter bottomfish trips per year

<sup>22</sup> Develop local area management plans (LAMPs) on a separate timeline.

<sup>23</sup> Military (Morale, Welfare, and Recreational) boats are exempted from QS program. They could be issued QS program exemption permits

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.

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 5. 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% maybe 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 6. To receive halibut QS and IFQ by transfer:**

For the charter sector, must be an initial charter issuee 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>24</sup>.

**Issue 7. 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 8. 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.

**Issue 9.** 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 10. Reporting:**

Placeholder for NOAA Fisheries Service

**Issue 11. Community set-aside** (trailing amendment for which communities would be included)

- 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.
- Source of the set-aside: Equal pounds from the commercial and charter sectors.  
Option : proportional to split between sectors
- 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.

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<sup>24</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