Attachment C.17.b
Supplemental NMFS
Buyback Aftereffects
Report -April 2004

The Aftereffects of the Pacific Groundfish Limited Entry Trawl Buyback Program
A Preliminary Analysis.
NMFS NWR (April 07, 2004 Draft)

Executive Summary

On December 4, 2003, under the Pacific Groundfish Limited Entry Trawl Buyback Program (Buyback Program) NOAA Fisheries permanently retired 91 trawl vessels and their Pacific Groundfish limited entry trawl permits. (NOAA Fisheries had previously announced the purchase of 92 vessels and federal groundfish permits, but at the last moment rejected one purchase due to an invalid bid package.) Designed under specific instructions from U.S. Congress (Attachment 1), the Buyback Program reduced the number of trawl permits to 172, excluding the ten associated with the catcher-processor fleet. The 91 buyback vessels cannot fish anywhere in the world ever again.

The Buyback Program was designed with the following goals:

* Reduce capacity in the groundfish fishery
* Increase the remaining harvesters' productivity
* Financially stabilize the fishery
* Conserve and manage groundfish

As a result of the Buyback Program:

* The number of permits has been reduced by 35%
* Based on 2002 revenues, annual groundfish revenues per permit are expected to potentially increase by 53%
* Annual non-whiting groundfish revenues per permit are expected to increase by at least 66 percent (tentative estimate)..
* Capacity in terms of endorsed permit length for the fleet has been reduced by 34%
* The physical capacity rating of the fleet (points) has been reduced by 31%
* Some trip limits have been increased

Since October 1, 2003, the NMFS NWR has transferred 20 trawl permits to new owners. The NWR has also received signals about the potential transfer of another permit. Some of these transfers are by Buyback Participants and others are by seafood processors. Many of these permits have been idle in recent years. Some reviewers of the Buyback Program have raised

concerns about Buyback Program participants reentering the fishery by buying such permits. Others have asked NOAA Fisheries to set a control date and issue an advance notice of proposed rule making to address inactive or "lightly fished" latent permits to keep new capacity from reentering the fishery.

The Buyback Program also bought 121 state crab and shrimp permits. This analysis does not describe the effects of the Buyback Program on these fisheries because of insufficient information. As a result this analysis is incomplete and preliminary. Some of this information will not be available until June 2004 after the California crab permit renewal cycle is completed. NOAA Fisheries is seeking information from the states on what actions they are taking to permanently revoke the state permits purchased. NOAA Fisheries is also now working with the states on how best to collect the fees needed to repay the $36 million loan portion of the Buyback Program's $46 million cost. (Attachment 2 provides information about the Buyback loan and state crab and shrimp fisheries.)

To help discussions concerns latent permits in the groundfish fishery, this analysis describes some of the results of the Buyback Program. In particular, this paper provides details on the 172 trawl permits that remain in the fishery. As a means of focusing discussion, this analysis sets up two alternative definitions of "latent." One definition defines an active permit as one that has landed at least one pound of fish, every year, over a number of consecutive years. A second definition is based on a review of 2002 harvests by permit and arbitrarily defines a latent permit as one that has less than 50,000 lbs. associated with it in a single year. Applying these definitions and comparing these alternatives produces a range of 24 to 32 latent permits. For discussion permits this range is collapsed into a single estimate of 30 permits.

However, defining "latent" and taking any action on "latent" permits will depend on discussions between NOAA Fisheries and the Pacific Fishery Management Council. The current Pacific Groundfish FMP does not contain provisions for removing "latent" permits. In developing Amendment 6 to the FMP, the Pacific Fishery Management Council rejected "Use It or Lose it" rules for removing "latent" permits.

> "These provisions result in expiration of a permit if the holder fails to make a certain minimum amount of landings in a fishing year. This type of measure is counter productive to effort reduction policies and its use was therefore minimized in development of the license limitation alternative." (Amendment six, page 4-81)

One way to frame future discussions on this issue is to address the following question:

> The Pacific Groundfish Buyback Program has reduced the available pool of limited entry permits for vessels that deliver to shore plants and motherships from 263 permits to 172 permits. Before carrying out a trawl ITQ program, should NMFS and the Council take action to reduce the number of inactive permits?

The next section of the analysis reviews various conclusions, findings, and other issues related to groundfish permits and the term "latent." These are:

* The term "latent" has no official definition.
* Forty permits had no recorded groundfish landings in 2002 and 2003.
* Four permit owners did not fish their permits at all during the 1998 to 2003 period.
* The number of unfished permits increased significantly after the year 2000 mirroring the decline in groundfish.
* During 2002, 56 permits had harvest levels less than 50,000 lbs.
* Some permits may not be fished because of strategic planning.
* The ITQ Control Date and rising permit prices are discouraging the sale of latent permits.
* Twenty trawl permits have changed hands since October 1, 2003. Six had 2002 harvests. Fourteen did not.
* Knowing there is a control date on ITQ's why buy a permit? One potential ITQ allocation alternative may be stimulating the purchase of permits.
* Activating some permits may be helpful to some fishing communities. How has the Buyback Program affected fishing communities?

This section is then followed by final section whereby the two alternatives are described, applied, and compared. This section projects:

* For 2004, after considering recent permit transfers and the potential for increased harvests of whiting, about 30 "latent" permits remain in the fishery.

Discussion and Findings:

The term "latent" has no official definition

The Magnuson-Stevens Act, the Pacific Groundfish Fishery Management Plan (FMP), or the academic literature do not define the term "latent." As a result, there are no guidelines for the analyst to use for measuring latency. Defining the term "latent" will depend on available data and on the goals and objectives for the fishery.

In defining the term "latent" it will be important to distinguish between two interrelated concepts: "latent permits" and "latent capacity." Most discussions about "latent permits" concern minimum landing requirements that must be met for the permit to remain valid. Other discussions concern "latent" capacity which is about the amount of unutilized capacity exists in the fishery. This analysis is addressed to the "latent" permit issue.

Many of the issues surrounding the term "latent" are discussed in the March 16, 2000 draft Report on Overcapitalization in the West Coast Groundfish Fishery developed by the Economic Subcommittee of the Pacific Fisheries Management Council's Scientific and Statistical Committee:

> Under Amendment 6 to the Groundfish FMP (PMFC 1992a) the Council established a limited entry program whereby vessels meeting minimum landings requirements (MLRs) for trawl, longline or fishpot gear during the window period July 1, 1984-August 1, 1988 could qualify for a transferable limited entry permit. Permit holders were allowed to use only those gears endorsed on their permits (i.e., those gears for which they met the MLRs) while participating in the limited entry fishery. While permits must be renewed annually, permit holders are not required to land any groundfish in order for the permit to remain valid. To discourage increases in harvest capacity associated with the transfer of permits from smaller to larger boats, non-permitted vessels desiring to enter the fishery are required to either purchase a permit from a similar-sized or larger vessel or to purchase a combination of permits from smaller vessels according to a conversion formula based on vessel length. Trip limits and trip frequency limits, which were already being used to restrict harvest rates on the major groundfish complexes, were also expected to reduce the incentive for " capital stuffiing"

The SSC Report went on to define the MLRs for trawlers and "Capital stuffing"

> MLRs during the window period varied by gear type as follows: trawl-9 landings of at least 500 pounds of non-whiting groundfish or 450 mt of non-whiting groundfish or 17 landings of at least 500 pounds of whiting or 3,750 mt of whiting:...
>
> "Capital stuffing" pertains to the technological innovations and fishing practices that allow fishermen to increase their share of the allowable harvest in the race for fish. As these innovations and practices become more widespread, the competitive advantage they initially provided tends to dissipate, leading to additional rounds of innovation and higher costs for the fleet as a whole without a commensurate increase in harvest.

The SSC Report discussed the linkage between harvest capacity and permits:

> Potential harvest capacity includes both unutilized (i.e., latent) and utilized capacity. Although limited entry has likely had the effect of "freezing" potential harvest capacity in the fishery at its 1994 level, the low MLRs used to qualify a permit virtually assured that a significant proportion of the potential harvest capacity initially admitted into the fishery consisted of latent capacity. Furthermore, the amount of time elapsed between the window period (i.e., the 1984-1988 period during which vessels would had to fish to qualify for a limited entry permit) and the year when limited entry was actually implemented (1994) increased the likelihood of permits being issued to vessels whose

Involvement in the groundfish fishery had waned by the time permits were actually issued.

Permit transferability per se has the advantage of flexibility, in that it allows the composition of the fishing fleet to adapt to changes in environmental, biological and economic conditions, and allows individual vessels to enter and exit in response to changes in their personal circumstances. However, since vessels are typically not interested in buying a permit unless they intend to use it and since marginally involved fishery participants (i.e., vessels comprising the latent capacity in the fishery) are typically the most willing to sell their permits, the presence of significant latent capacity almost inevitably assures the increase in realized fishing effort when permits are transferred. The establishment of an active whiting catcher-processor sector resulting from the transfer of permits from trawlers to catcher-processors reduced the amount of latent capacity in the trawl sector and did little to curtail the actual amount of fishing effort expended by trawlers. Transfers involving fixed gear vessels have likely resulted in increased fishing effort as well.

The SSC concludes its report requesting that the Council take deliberate action:

In other words, latent capacity is always available in the open access fishery and likely to remain high in the limited entry fishery, since permit holders are much more likely to retain their permits rather than allow them to lapse. Unless the Council takes deliberate action, a significant amount of capacity will remain in the groundfish fishery that can be mobilized at any sign of improved fishing opportunities. Given that fishing effort can easily outpace OYs even if the OYs were to increase to much higher levels, the current problems associated with low landings limits and short seasons will not go away unless latent capacity is permanently removed from the groundfish fishery.

In its Executive Memorandum to the Council, the SSC asserted that:

The Council should take immediate action to develop stringent capacity reduction programs, for all sectors of the West Coast groundfish fishery. Given the current moratorium on IFQs and the complexities of designing an IFQ system, IFQs are best viewed as a long term management strategy for West Coast groundfish. Other potential solutions include limited entry for the open access fishery and buyouts and/or permit stacking for the limited entry fishery should be explored immediately.

Forty permits had no recorded groundfish landings in 2002 and 2003.

Vessels that deliver to shore or to non-tribal motherships use these permits. Sometimes within a year or across years, two or more vessels use a given permit. We added preliminary PacFIN data for January-September 2003 to the Buyback Program Database which contains 1998 -2002 fish ticket

data. We then organized the data by permit and developed a simple rule to define a "fished" permit. A fished permit is one where at least one pound of groundfish landed or delivered during the time the permit was valid. Below, we analyze these permits based on total pounds landed or delivered in 2002. (This analysis describes the 172 trawl permits that remain in the fishery. It does not include permits combined with other permits in 1998 (5), 1999 (1) and in 2003 (1) or the 10 permits associated with the catcher-processor fleet.)

Remaining Limited Entry Trawl Permits

Year	1998	1999	2000	2001	2002	2003
Fished	154	158	152	140	133	132
Not fished	18	14	20	32	40	40
Total	172	172	172	172	172	172

(Excludes 10 permits associated with Factory Trawlers)

Four permit owners did not fish their permits at all during the 1998 to 2003 period.

Only four permits recorded no landings consecutively between 1998-2003.

Number of Unfished Permits by Consecutive Period

1998-2003	4
1999-2003	7
2000-2003	13
2001-2003	24
2002-2003	33
2003	40

The number of unfished permits increased significantly after the year 2000 mirroring the decline in groundfish harvests.

Harvests of all groundfish or whiting by the entire limited entry trawl fleet (excluding catcher processors and tribal trawlers) fell off significantly during the 2001-2003 period compared with the 1998-2000 period. Pacific whiting harvests have fallen off significantly in the last two years, matching the trends in unfished permits during these two years. During this later period, nine species of fish were declared overfished, including whiting. In response, the Pacific Council and NOAA Fisheries set up large area closures and other measures to protect these fish.

Groundfish Harvests 1000 Tons

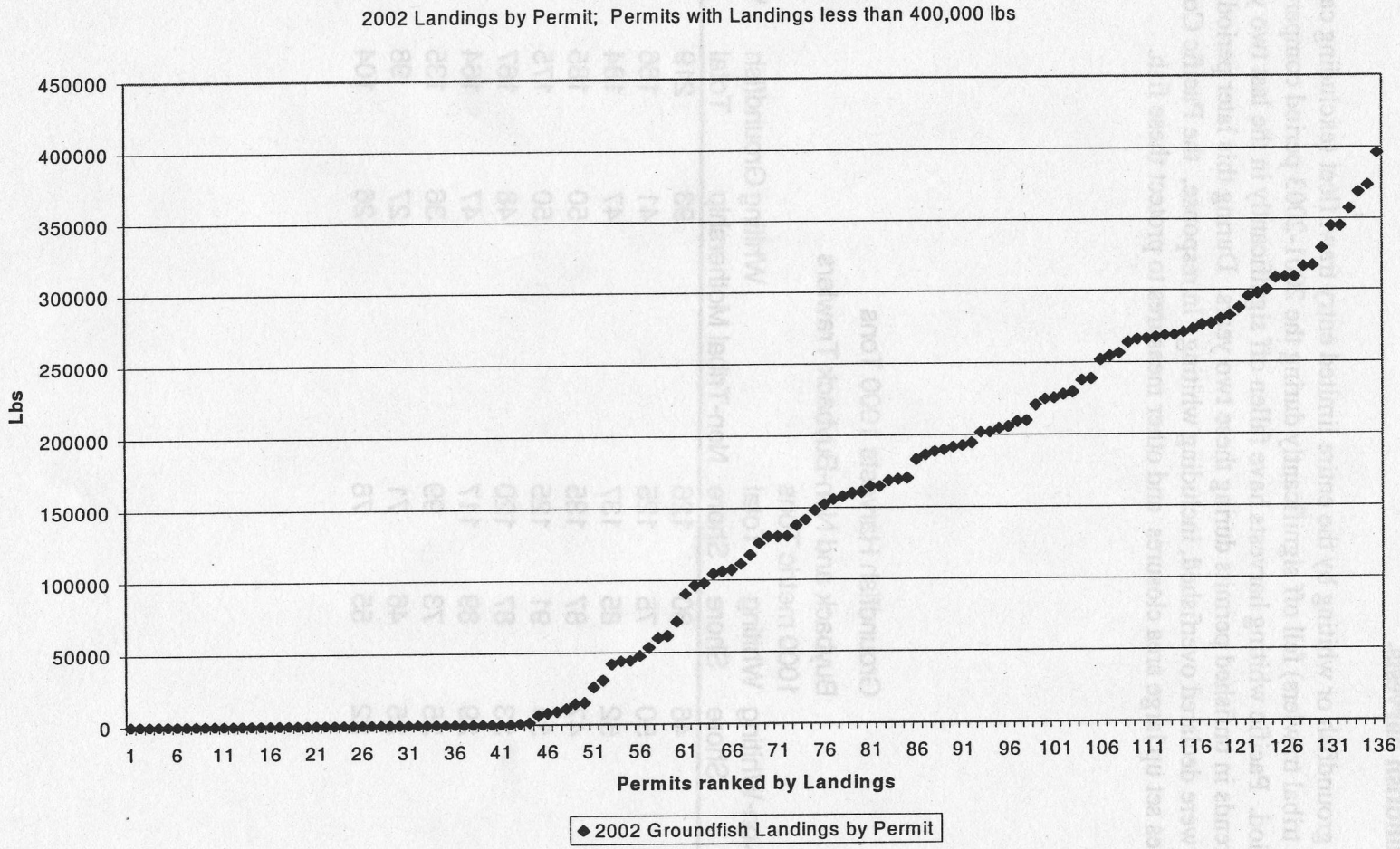
Buyback and Non-Buyback Trawlers

1000 metric Tons

	Non-Whiting Shore	Whiting Shore	Total Shore	Whiting Non-Tribal Mothership	Groundfish Total	Whiting Total
1994	46	80	126	93	219	173
1995	50	75	125	41	166	115
1996	52	85	137	47	184	132
1997	47	87	135	50	185	138
1998	34	91	125	50	175	140
1999	33	87	120	48	167	135
2000	29	89	117	47	164	136
2001	25	73	99	36	135	109
2002	25	46	71	27	98	72
2003	22	55	78	26	104	81

During 2002, 56 permits had harvest levels less than 50,000 lbs.

The graph below plots permits against landings. (To avoid the scale effects associated with Pacific whiting permits, the plot excludes permits with more than 400,000 lbs.) There are no obvious break points on which to base a definition of a latent permit.



The table below classifies permits by groundfish harvest combining shoreside landings with non-tribal mothership deliveries. The owners of forty permits did not fish their permits in 2002. Thirty permits were not fished at all, and 10 permit owners fished species other than groundfish during the year (mainly crab and shrimp). Of the permits that were fished, ten permits had harvests ranging from one to 15,000 lbs. Finally, six permits had landings between 16,000 and 50,000 lbs.

2002 Harvests and Revenues for Remaining 172 Permits

Groundfish Range Low lbs	Harvest High lbs	Number of Permits	Groundfish Total Lbs	Groundfish Total Revenue	Groundfish Average lbs/permit	Groundfish Average $/permit	All Species Total Lbs	All Species Total Revenue
0	**0**	30	0	$0	0	$0	0	$0
0	**0**	10	0	$0	0	$0	719,695	$1,090,574
1	**15,000**	10	65,554	$41,422	6,555	$4,142	1,255,875	$685,242
16,000	**50,000**	6	233,843	$113,879	38,974	$18,980	1,610,520	$815,505
51,000	**100,000**	7	529,940	$319,852	75,706	$45,693	837,461	$742,562
101,000	**200,000**	29	4,440,717	$2,517,061	153,128	$86,795	10,416,529	$5,369,242
201,000	**400,000**	44	12,112,506	$6,703,388	275,284	$152,350	18,172,958	$10,567,037
401,000	**1,000,000**	6	3,889,682	$1,099,961	648,280	$183,327	4,055,289	$1,147,221
>1,000,000		30	152,446,116	$8,548,965	5,081,537	$284,966	154,794,826	$10,373,211
Totals		172	173,718,358	$19,344,528	1,009,990	$112,468	191,863,153	$30,790,594
All 2002 Permits		263	206,790,628	$32,106,888	786,276	$122,079	238,605,783	$49,219,394
Buyback Permits		91	33,072,270	$12,762,360	363,432	$140,246	46,742,630	$18,428,800

Note that as a result of the buyback, there remain 172 permits. If upcoming years generate groundfish revenues similar to those of 2002 ($32 million); then the average groundfish revenue per permit would be about $187,000; 53 percent higher than $122,000 earned per permit in 2002.

(The following discussion is tentative and needs to be cross checked with others.) Many permit holders do not participate in the Pacific whiting fishery. Non-whiting groundfish revenues earned by the buyback fleet were almost exactly half of the estimated non-whiting revenues earned by the entire fleet in 2002--about $25 million. . About 32 permits may be deemed "Pacific whiting" permits. These are permits whose owners appear to earn more than 90% of their groundfish revenues from Pacific whiting (20 in 2002) or are permits that appear to be used solely in the non-tribal whiting mothership fishery (about 12-also see discussion below). The estimate of 32 "Pacific whiting" permits in 2002 would yield an estimate of 231 "non-whiting" groundfish permits in 2002 for an average revenue per permit of $108,000. None of the buyback permits were "Pacific whiting" permits. Therefore, an estimate of the number of post-buyback "non-whiting" permits is 231 minus 91 or 140. Sharing $25 million in non-whiting groundfish revenues by 140 permits would lead to an average revenue per permit of $179,000-an increase of 66 percent because of the Buyback. One industry analyst thinks the increase is more on the order of an 85% increase.

Some Permits may not be fished because of strategic planning.

Some of these permits may be unfished because of strategic planning by fishermen who keep their groundfish permits in case other fisheries they engage in decline. They may also be waiting for groundfish stocks to increase. For example, declining trends in the Pacific whiting fishery may account for 12 unfished permits used by the non-tribal mothership fleet. Projections for the 2004 whiting OY may return the whiting mothership to levels similar to those of 1998.

Motherships and their delivery vessels are typically closely tied. If the mothership chooses to remain in Alaska to process pollock, typically the allied delivery vessels do so too. Often, the delivery vessel fishes for Pacific groundfish using a permit owned by the mothership company.

Twenty-seven of the remaining 172 permits have been used as vessels engaging in the non-tribal mothership fishery over the period 1998 to 2003. Of these permits, eight were idle in 2003, 10 permits idle in 2002, and eight were idle in 2001. Over the period 1998 to 2003, annual non-tribal mothership harvests decreased from 50,000 tons to 26,000 tons. With the decline in harvests, the number of motherships taking part in the fishery also declined. In 1998, there were six motherships, whereas in 2003, there were only four. Starting in 2001, the mothership Golden Alaska stopped engaging in the fishery. Similarly, starting in 2002, the mothership Ocean Phoenix stopped taking part in the fishery.

In comparing the number of unique vessels (some vessels supply more than one mothership) over the period 1998 to 2003, it appears that 12 of the 40 unfished permits are unfished because of

changes in the mothership whiting fishery. For perspective, during 1994, the first year of limited entry, there were nine major motherships employing 43 different delivery vessels to harvest 92,000 tons of Pacific whiting. Over the years 1998-2003, 31 different delivery vessels have participated in the fishery.

	Number of Delivery Vessels						
Motherships	1998	1999	2000	2001	2002	2003	
Arctic Fjord	7	3	5	4	5	4	
Arctic Storm	7	5	5	5	5	4	
Excellence	4	4	5	7	4	4	
Golden Alaska	4	4	4	0	0	0	
Ocean Phoenix	7	6	8	7	0	0	
Ocean Rover	2	3	2	3	2	2	
Unique JV	24	23	23	20	11	12	
New vessels that did not fish previously		2	3	1	0	1	31 different vessels
Mothership deliveries	49705	47580	46710	35658	26106	26102	

The ITQ Control Date and rising permit prices are discouraging the sale of latent permits.

On January 9, 2004, NOAA Fisheries published a November 6, 2003 control date notice for the Pacific groundfish fishery. The potential use of ITQ in the trawl fishery discourages the entry of new permit holders into the fishery and the sale of permits by existing permit holders. Current permit holders will be reluctant to sell their permits as they would be offering up their access to an IQ share. New permit holders that have entered the fishery may not see their new activities count toward the currently discussed trawl ITQ program. Currently discussed in the Pacific Council's ITQ Committee are ITQ allocation alternatives that would limit potential catch history periods to all or part of the 1994-2003 time period. Therefore any catch history developed after the November 6, 2003 ITQ Control Date will likely not count toward an ITQ share.

The Notice for the Pacific groundfish fishery (69FR1563), states the following:

> "The control date for the trawl IQ program is intended to discourage increased fishing effort in the limited entry trawl fishery based on economic speculation while the Pacific Council develops and considers a trawl IQ program. Persons potentially eligible for IQ shares may include vessel owners, permit owners, vessel operators and crew. The control date announces to the public that the Pacific Council may decide not to count activities occurring after the control date toward determining a person's qualification for an initial allocation or determining the amount of initial allocation of quota shares. Groundfish

landed from limited entry trawl vessels after November 6, 2003 may not be included in the catch history used to qualify for initial allocation in the trawl IQ program."

The following table shows how the Buyback Program has affected permit prices. According to the "Permit News" section of the December 2003 *Fishermen's News*;

> "...The market for "A" trawl permits took off right after the buyback results were announced. Values have at least doubled, and prices are around $7000-$8000/pt."

Permit Prices-As reported by Dock Street Broker's (Seattle, Washington) "Permit News" Report:

	$/Point
January 1998	$6,000-$7,000
January 1999	$6,000-$6,500
January 2000	$5,000-$6,000
January 2001	$3,000-$4,000
January 2002	$2,000-$3,000
January 2003	$2,000-$3,000
February 2003	$2,000-$3,000
March 2003	$3,000-$3,000
April 2003	$3,000-$3,000
May 2003	$3,000-$3,000
June 2003	$3,000-$3,000
July 2003	$3,000-$3,000
August 2003	$3,000-$3,000
September 2003	$3,000-$3,000
October 2003	$3,000-$3,000
November 2003	$3,000-$3,000
December 2003	$7,000-$8,000
January 2004	$7,000-$10,000
February 2004	$6,000-$10,000
March 2004	$6,000-$10,000
April 2003	$6,000-$10,000

(*Fishermen's News,* various issues-dates are publication dates)

The January 2004 issue of the *Fishermen's News* indicates how the control date on ITQ's is affecting the permit market:

> "Coastal "A" Trawl permits have become the hot item. With the buyback a done deal and participants set to receive funds any day now, there is all of a sudden a great deal of interest from people that are looking to get back in. There haven't been very many

permits available, but some have sold. Prices have varied from around $7,000-$10,000/pt. The market is complicated somewhat by the potential for some sort of IFQ program in the future. Buyers want permits with history, but several of the permits that have been available have been inactive for the past few years."

The February 2004 issue of the *Fishermen's News* continues to report increasing prices but the market may be cooling down:

"Coastal "A" trawl permits are still in demand, but the post-buyback furor has settled somewhat. A few permits are available, and look to spend around $10,000/pt."

Since February 2004 and through April 2004, prices have stayed stable at $6,000 to $10,000 per point.

Listed as sold on the 02/02/04 edition of the www.permitmaster.com website was a 32-point trawl permit (80 feet) for $250,000 and on the www.dockstreetbrokers.com website a 10-point (50 feet) for $200,000. (This later offer appears contrary to the $7000-$8000 point estimate mentioned above.) Dockstreet Brokers sold a second permit for 52 feet (11 points) for $105,000 for an average of $9500 per point (02/11/2004 listing).

For someone to enter the fishery, he probably needs to buy a federal permit and a vessel. He probably also needs to buy some state permits to make the vessel profitable. The Buyback Program purchased 91 groundfish permits and vessels and 121 state permits for crab and shrimp. The median price paid out for a Buyback package was about $400,000. This implies that for a new entrant into the fishery, the costs of entering the fishery could be on the order of about $400,000.

The reference to "A" trawl is to distinguish the permit from a provisional "B" permit which no longer exists. The reference to points reflects the capacity rating scale associated with the permit. The capacity rating scale is a projection of capacity against vessel length. It is a nonlinear relationship :

Length in Feet	Capacity (points)
33	3.50
40	5.66
50	9.88
60	15.59
70	22.92
80	32.00
90	42.96
100	55.90
110	70.94
120	88.18

This capacity rating schedule controls capacity in the fleet. To enter a new vessel into the fishery, the owner needs to buy (take out) a sufficient number of "points" through the purchase of existing permits so overall capacity in the fleet is not increased. Currently the major use of this schedule is used by fishermen who wish to lengthen their vessel and need to combine permits. As it bears on the cost on entering the fishery, the following example is illustrative.

> A vessel owner wants to increase his vessel by 10 feet. His vessel and associated Pacific groundfish permit are now 70 feet. A limited entry trawl permit with a 70-foot endorsement has a capacity rating of 23; a limited entry trawl permit with an 80-foot endorsement has a rating of 32 points. Therefore, the vessel owner needs to buy a permit of enough length to cover the nine points needed. To get the added length, the vessel owner may first consider buying the smallest permit in the fleet-33 feet. He rejects this permit as it would only provide 3.5 points. To get nine points he must purchase a 48-foot permit or greater. At $7,000 per point, this would imply that to lengthen his vessel, he would need to spend at least $63,000.

The average remaining permit has an endorsed length of 70 feet and a capacity rating of about 23 points. At current prices of $6,000 to $10,000 per point, the average permit is worth an estimated $138,000 to $230,000.

Permit Data-Endorsed Length:

Permit Endorsed Length (feet)	All Permits Number	Buyback Permits Number	Remaining Permits Number	% Reduction
33-40	5	0	5	0%
41-50	26	5	21	19%
51-60	73	32	41	44%
61-70	40	14	26	35%
71-80	71	33	38	46%
81-90	27	4	23	15%
91-100	7	1	6	14%
101-110	8	2	6	25%
111+	6	0	6	0%
Total	263	91	172	35%
Total Length Feet	18065	6089	11976	34%
Average	69	67	70	
Median	67	66	69	
Total "points"	6449	1984	4465	31%

Twenty trawl permits have changed hands since October 1, 2003. Six had 2002 harvests. Fourteen did not.

Since October 1, 2003 and through April 7, 2004, the NMFS NWR transferred a net total 20 permits to new owners. (There were actually 21 permit transfers but one permit was transferred twice.). Not all of the these permits were inactive. They have the following characteristics:

* 14 had no landings in 2002
* 6 had landings in 2002
* 3 had landings greater than 50,000 lbs in 2002
* 6 Buyback participants purchased 11 permits with one being resold to a processor.
* 2 non-buyback fishermen purchased one permit each, with 1 permit being combined with an existing permit.
* 2 processor purchased a total of 8 permits.

A Buyback Program participant has recently indicated to the NMFS NWR Permits Office that he may buy another permit. If this transaction is completed, 21 permits will have changed hands.

Knowing there is a control date on ITQ's why buy a permit? One potential ITQ allocation alternative may be stimulating the purchase of permits.

* Processors who lost vessels may want to assure supply of fish to the processing plant. One processor lost all of his delivery vessels to the buyback.
* Processors may be buying permits to expand their market share.
* Permit holders who were ineligible to take part in the Buyback Program are willing to sell their permits because of increased prices.
* Some buyers may be speculating the Council will relax its rules on ITQs.
* Some buyers are buying permits to obtain potential ITQ history.
* Some buyers may calculate that it's profitable to buy a permit and fish it during the three to five years it may take to implement ITQs. In 2002, the average active permit (total =223) averaged $122,000 in groundfish revenues. If the 2002 groundfish fishery was carried out by the remaining 172 permits, the average groundfish revenue per permit would increase to about $187,000.

One alternative that is being explored by the Council's Trawl Committee is one where there is equal sharing of the catch history of the buyback permits among all of the remaining permit holders (latent and active). During 2002, the catch history of the buyback permits was worth an estimated $12.8 million for an average of $74,000 per remaining permit. Some permit buyers may be speculating that it may be worth the risk of paying $100,000 to $200,000 now for a permit that in the future would potentially yield IQ shares that generate $74,0000 annually through leasing to others.

Activating some permits may be helpful to some fishing communities. How has the Buyback Program affected fishing communities?

To help answer this question, we developed the three tables shown below using 2002 ex-vessel revenue data and port data developed by Dr. Jim Hastie (NMFS NWC). The first table shows by port the change in the number of vessels because of the Buyback Program. The second and third tables show, respectively, by port groups, the share of groundfish revenues and all-species revenues associated with buyback vessels. All species revenues include groundfish, crab, shrimp, and all other species landed by groundfish trawlers under permits issued in 2002. Dr. Jim Hastie identified two primary groundfish ports for each permit-one associated with non-whiting groundfish landings and one for whiting landings. For this analysis, information on the two primary ports was combined into a single primary port. If whiting landings are greater than 40 percent of the permit's total revenues (all species), we assigned the whiting primary port to the permit. If whiting landings were less than 40 percent of the permit's total revenues, we assigned the non-whiting primary port to the permit. There were also two at-sea whiting permits that had no shoreside landings, and these were assigned to a state but not to a port.

The Buyback Program affected almost all the groundfish ports and their communities. Few ports were unaffected. The ports of Eureka and Bellingham were the most affected with Bellingham losing all of its vessels to the Buyback Program. As pointed out previously, 40 of the remaining 172 permits, were idle in 2002. As indicated in these tables, four of the 91 Buyback permits were also idle in 2002. In terms of 2002 groundfish ex-vessel revenues, Buyback Program vessels accounted for 40 percent of the $32 million of landed by all groundfish trawlers either on shore or delivered to non-tribal motherships. These vessels also account for a similar share percentage of the $49 million in all species revenues.

Affected communities can respond to the potential loss in revenue and income from the Buyback Program in several ways. First, the remaining vessels in the Port can expand their effort to replace the revenues associated with Buyback Program participants to the extent that trip limits allow. Second, active vessels can be hired away from other communities. Finally, a local processor or fisherman can buy and fish an inactive permit. Available information on permit transfers suggests that three of the permits will be used in the port of Bellingham.

Community Effects of the Buyback

Primary Port	State	2002 Active Vessels	Buyback Vessels	Remaining Vessels	Percent Reduction
Avila	CA	7	4	3	-57%
Bodega Bay	CA	2	1	1	-50%
Fort Bragg	CA	13	4	9	-31%
Crescent City	CA	16	14	2	-88%
Santa Cruz	CA	2	0	2	0%
Eureka	CA	23	14	9	-61%
Monterey	CA	4	0	4	0%
Moss Landing	CA	8	4	4	-50%
Morrow Bay	CA	2	0	2	0%
Princeton/Half Moon Bay	CA	11	1	10	-9%
San Francisco	CA	4	1	3	-25%
Astoria	OR	40	13	27	-33%
Brookings	OR	9	5	4	-56%
Coos Bay	OR	24	8	16	-33%
Florence	OR	1	0	1	0%
Newport	OR	25	6	19	-24%
Tillamook/Garibaldi	OR	1	0	1	0%
Portland/Seattle	OR/WA	2	0	2	0%
Bellingham Way	WA	4	4	0	-100%
Blaine	WA	4	1	3	-25%
Ilwaco	WA	1	0	1	0%
Port Angeles	WA	7	4	3	-57%
Wesport	WA	9	3	6	-33%
All Ports	WA	26	12	14	-46%
All Ports	OR	101	32	69	-32%
All Ports	CA	92	43	49	-47%
Permits with no groundfish landings		44	4	40	-9%
Totals	All	263	91	172	-35%

2002 Ex-vessel Groundfish Revenues

		Total All Vessels	Buyback Vessels	Remaining Vessels	Percent Reduction
Bodega Bay/Princeton-Half Moon Bay/San Francisco	CA	$2,129,512	$359,738	$1,769,774	-17%
Crescent City/Eureka/Fort Bragg	CA	$6,695,023	$3,892,475	$2,802,548	-58%
Santa Cruz/Monterey/Moss Landing	CA	$1,199,239	$396,258	$802,981	-33%
Avila/Morrow Bay	CA	$1,073,632	$686,430	$387,202	-64%
Brookings	OR	$841,148	$548,289	$292,859	-65%
Coos Bay/Florence	OR	$3,075,793	$1,111,435	$1,964,358	-36%
Newport/Mothership	OR	$5,038,353	$961,614	$4,076,739	-19%
Astoria/Tillamook	OR	$6,359,037	$2,247,633	$4,111,404	-35%
Bellingham Way/Blaine/Port Angeles	WA	$3,368,541	$2,082,658	$1,285,883	-62%
Ilwaco/Westport/Mothership	WA	$2,326,610	$475,830	$1,850,780	-20%
Total All Ports		$32,106,888	$12,762,360	$19,344,528	-40%
Total	CA	$11,097,406	$5,334,901	$5,762,505	-48%
Total	OR	$15,314,331	$4,868,971	$10,445,360	-32%
Total	WA	$5,695,151	$2,558,488	$3,136,663	-45%
Total All States		$32,106,888	$12,762,360	$19,344,528	-40%

2002 Ex-vessel All Species Revenues

		Total All Vessels	Buyback Vessels	Remaining Vessels	Percent Reduction
Bodega Bay/Princeton-Half Moon Bay/San Francisco	CA	$3,380,783	$519,712	$2,861,071	-15%
Crescent City/Eureka/Fort Bragg	CA	$8,960,672	$4,844,543	$4,116,129	-54%
Santa Cruz/Monterey/Moss Landing	CA	$1,561,241	$414,203	$1,147,038	-27%
Avila/Morrow Bay	CA	$1,688,695	$862,384	$826,311	-51%
Brookings	OR	$2,448,784	$1,324,372	$1,124,412	-54%
Coos Bay/Florence	OR	$6,595,785	$2,775,972	$3,819,813	-42%
Newport/Mothership	OR	$6,711,731	$1,478,007	$5,233,724	-22%
Astoria/Tillamook	OR	$9,339,371	$3,030,195	$6,309,176	-32%
Bellingham Way/Blaine/Port Angeles	WA	$3,570,446	$2,276,191	$1,294,255	-64%
Ilwaco/Westport/Mothership	WA	$3,871,312	$903,221	$2,968,091	-23%
Non-fish landings-1	??	$1,090,574	$0	$1,090,574	0%
Total All Ports		$49,219,394	$18,428,800	$30,790,594	-37%
Total	CA	$15,591,391	$6,640,842	$8,950,549	-43%
Total	OR	$25,095,671	$8,608,546	$16,487,125	-34%
Total	WA	$7,441,758	$3,179,412	$4,262,346	-43%
Non-fish landings-1	??	$1,090,574	$0	$1,090,574	
Total All States and Non-Fish landings		$49,219,394	$18,428,800	$30,790,594	-37%

Comparison of "Latent Permit" Alternatives and Projection

For 2004, after considering recent permit transfers and the potential for increased harvests of whiting, 24 - 30 "latent" permits remain in the fishery.

Minimum landing requirements (MLR) used in selecting the first recipients of limited entry permits usually combine elements of time, (usually a number of years) and landings or deliveries (pounds landed or delivered). For example, the minimum landings requirement (MLR) used to qualify trawl vessels for the current limited entry system is the following:

> "The current owner of a vessel which met the MLRs between July 11, 1984 and August 1, 1988 (the window) may qualify for an "A" gear endorsement. The MLRs are as follows:
>
> Trawl: At least 9 days in which over 500 pounds of any groundfish species caught with groundfish trawl gear except Pacific whiting are landed or delivered or 450 mt of landings or deliveries of any groundfish species caught with groundfish trawl gear except Pacific whiting, or 17 days in which over 500 pounds of Pacific whiting caught with groundfish trawl gear are landed or delivered, or 3,750 mt of landings or deliveries of Pacific whiting caught with groundfish trawl gear." (Amendment 6, Pacific Groundfish FMP, p 2-3

"Latent" Definition-Alternative 1

Similarly, any definition of "latent" would typically have the same elements. Under a simple MLR of 1 pound a year, 40 permits were latent in 2002 and 2003, compared to the 20 or less latent permits during the 1998-2000 period. The increase in unfished permits is likely the result of declining trends in groundfish harvest, especially whiting harvest. In expanding this MLR to one that applies to consecutive years, four permits may be deemed "chronically latent" as they were not fished at all during 1998 to 2003. Twenty-four permits may be deemed latent as they were not fished at all during the entire 2000-2003 period. Finally, forty permits may be deemed "recently latent" as they were not fished in 2002. A slightly different set of forty permits was not fished in 2003. Given that 20 permits have changed hands with 14 of these permits not being fished in 2002, would yield an estimate of 26 latent permits. As these estimates are based on lenient MLRs (needing only 1 pound of landing to in each of these three years to meet this requirement or 1 pound in 2002);) perhaps a lower bound on the number of existing latent permits is 24 permits.

Number of Unfished Permits by Consecutive Period

1998-2003	4
1999-2003	7
2000-2003	13
2001-2003	24
2002-2003	33
2003	40

Note that the Council's Trawl IQ Committee is taking a similar approach in exploring two alternative recent participation requirements for IQ eligibility. One alternative would require participation based on a certain number of trips and/or years during the 1998-2003 period. A second alternative would base qualification for IQ consideration based on the 2000-2003 time period.

"Latent" Definition Alternative 2

An alternative way of defining a latent permit is to define a latent permit as one where less than 50,000 lbs. were landed in a given year. This is an arbitrary choice based organizing permits according to the following categories of harvest based on 2002 data.

Groundfish Range Low lbs	Harvest High lbs	Number of Permits	Groundfish Total Lbs	Groundfish Total Revenue	Groundfish Average lbs/permit	Groundfish Average $/permit
0	**0**	30	0	$0	0	$0
0	**0**	10	0	$0	0	$0
1	**15,000**	10	65,554	$41,422	6,555	$4,142
16,000	**50,000**	6	233,843	$113,879	38,974	$18,980
51,000	**100,000**	7	529,940	$319,852	75,706	$45,693
101,000	**200,000**	29	4,440,717	$2,517,061	153,128	$86,795
201,000	**400,000**	44	12,112,506	$6,703,388	275,284	$152,350
401,000	**1,000,000**	6	3,889,682	$1,099,961	648,280	$183,327
>1,000,000		30	152,446,116	$8,548,965	5,081,537	$284,966
Totals		172	173,718,358	$19,344,528	1,009,990	$112,468

There were 40 permits with no recorded groundfish landings in 2002 and another 10 with harvests between 1 and 15,000 lbs. Another 6 permits had landing between 16,000 and 50,000 lbs. The decision was not to define as latent the 7 permits within the 51,000 to 100,000 lb. category. The average revenue per permit for permits in this category is significant - $45,693. Assuming a crew share of 39%, permits in this category earn enough to pay a crew member wages equivalent to that of $18,000, which is approximately the per-capita income associated with in Astoria, Oregon-- one of the key groundfish ports. (According to 2000 U.S. Census data, the median income for a household in Astoria is $33,011, and the median income for a family is $41,446. Males have a median income of $29,813 versus $22,121 for females. The per capita income for the city is $18,759.)

In 2002, 56 permits had associated harvests less than 50,000 lbs. Since October 1, 2003, 20 permits have changed hands with three having harvests greater than 50,000 lbs. in 2002. Therefore, under this definition, permit buyers collectively have bought 17 "latent" permits. Because they were purchased, we can expect that these permits will become active. The increase in the whiting resource for 2004 is also expected to activate an additional 12 permits by existing owners for use in the mothership fishery. (Table below describes suggests 11 mothership permits but discussion above on "Strategic Planningi suggests 12 permits.) Subtracting these two sets of permits from the 56 permits, leaves an estimate of 27 latent permits.

Size Distribution of Permits that landed less than 50,000 lbs in 2002:

Permit Endorsed Length (feet)	Latent Mothership	Non-Mother
33-40	0	3
41-50	0	11
51-60	0	12
61-70	0	5
71-80	3	9
81-90	2	5
91-100	0	0
101-110	3	0
111+	3	0
Total	11	45
Total Length Feet	1088	2720
Average	99	58
Median	105	59
Total "points"	632	795

Alternative Comparison

Therefore, comparing these two alternatives gives a sense there may be 24 to 27 latent permits in the fishery. In simpler terms, there may be "something on the order of "30 " latent permits remaining in the fishery. If these permits were removed, this would bring the fishery to 142 permits.