

**Final Regulatory Impact Review /  
Initial Regulatory Flexibility Analysis**

**Amendment 96 to the Fishery Management Plan  
For Groundfish of the Gulf of Alaska**

**Remove the Community Quota Entity  
Small Block Restriction**

**October 2014**

Abstract: This action removes a regulation that prohibits a Gulf of Alaska (GOA) Community Quota Entity (CQE) from transferring and holding small blocks of halibut and sablefish quota share (QS). This action will allow CQEs to acquire additional QS and facilitate CQE community resident participation in the IFQ Program.

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## Table of Contents

Executive Summary.....	iv
<b>1 Introduction.....</b>	<b>1</b>
<b>2 Regulatory Impact Review.....</b>	<b>1</b>
2.1 Council problem statement.....	2
2.2 Purpose and need.....	2
2.3 Alternatives .....	3
2.4 Statutory authority for this action.....	4
2.5 Affected management areas .....	4
2.6 Background .....	6
2.6.1 CQE Program history and intent .....	6
2.6.1.1 Halibut and Sablefish IFQ Program .....	6
2.6.1.2 Community Quota Entity Program.....	8
2.6.2 Quota share blocks & CQE block restrictions.....	10
2.6.3 CQE Program participation .....	13
2.6.3.1 Barriers to purchasing QS.....	15
2.6.3.2 Quota share availability .....	16
2.6.3.3 Quota share price, ex-vessel value .....	19
2.6.3.4 Financing CQE purchase of quota shares.....	22
2.6.3.5 Program-related barriers .....	24
2.6.3.6 Transfer price caveats.....	25
2.6.4 Commercial halibut and sablefish IFQ fisheries .....	25
2.6.4.1 Halibut.....	26
2.6.4.2 Sablefish .....	28
2.6.5 Other Council actions that include a CQE component.....	30
2.6.5.1 No-cost limited entry charter halibut permits.....	30
2.6.5.2 Fixed gear Pacific cod endorsements .....	31
2.7 Effects of the alternatives .....	32
2.7.1 Alternative 1 .....	32
2.7.1.1 Maximum potential CQE holdings of halibut QS .....	33
2.7.1.2 Maximum potential CQE holdings of sablefish QS .....	34
2.7.1.3 Effects on CQEs .....	34
2.7.1.4 Effects on CQE community residents .....	35
2.7.1.5 Effects on non-CQE community residents .....	37
2.7.2 Alternative 2 (Council preferred alternative) .....	37
2.7.2.1 Additional QS available to CQEs under Alternative 2.....	38
2.7.2.2 Impacts of making small QS blocks available to CQEs .....	42
2.7.2.3 Changes in access to fishery participation.....	43
2.7.2.4 Effects on the quota share market.....	45
2.7.2.5 Social and economic aspects of community-held quota.....	46
2.7.3 Net benefits .....	47
<b>3 Initial regulatory flexibility analysis.....</b>	<b>49</b>
3.1 Introduction .....	49
3.2 IRFA requirements .....	50
3.3 Definition of a small entity.....	50
3.4 Reason for considering the proposed action.....	52
3.5 Objectives of the proposed action and its legal basis .....	52
3.6 Number and description of directly regulated small entities .....	53

3.7	Recordkeeping and reporting requirements.....	53
3.8	Federal rules that may duplicate, overlap, or conflict with proposed action.....	53
3.9	Description of significant alternatives.....	54
<b>4</b>	<b>References.....</b>	<b>54</b>
<b>5</b>	<b>List of preparers and contributors.....</b>	<b>55</b>
<b>6</b>	<b>Appendices.....</b>	<b>56</b>
Appendix 1	Map of eligible CQE communities located in Areas 2C, 3A and 3B.....	56
Appendix 2	Annual prices for halibut and sablefish QS and IFQ transfers by area and year, 1995-2011.....	57
Appendix 3	Number of QS holders residing in CQE communities who have reached their individual block limit (as of February 2013).....	60
	(Appendix 3 continued).....	61

### List of Figures

Figure 2-1	Regulatory areas for the Pacific halibut fishery.....	5
Figure 2-2	Regulatory areas for the Gulf of Alaska sablefish fishery.....	5
Figure 2-3	Transfer rate for halibut QS, 1995-2011.....	17
Figure 2-4	Transfer rate for sablefish QS, 1995-2011.....	18
Figure 2-5	IFQ quota share transfer and lease rates, 1995 to 2011.....	19
Figure 2-6	Aggregate IFQ total allowable catch (lbs.) for halibut and sablefish in the affected management areas, 2007 to 2013.....	21
Figure 2-7	IFQ halibut total allowable catch (lbs.) by area, 2007 to 2013.....	21

## List of Tables

Table 2-1	Regulatory limits on individual QS holdings, and 2013 IFQ equivalents .....	7
Table 2-2	Percent of QS held by residents of CQE communities, at initial issuance (1995) and for fishing year 2013 .....	9
Table 2-3	Regulatory limits on combined CQE QS holdings, and 2013 IFQ equivalents.....	10
Table 2-4	Number of blocked quota share units at (or beneath) which a block is considered “small” .....	11
Table 2-5	Blocked and unblocked QS, by vessel category, for the 2013 quota share pool .....	12
Table 2-6	Proportion of total QS blocks by vessel category, 2013 .....	12
Table 2-7	Small QS blocks as a proportion of total QS, total blocked QS, by vessel category, 2013 .....	12
Table 2-8	Proportion of small QS blocks by vessel category, 2013 .....	13
Table 2-9	Eligible CQE communities, population (2010 U.S. Census data) .....	15
Table 2-10	Consolidation in the number of persons holding QS .....	16
Table 2-11	Number of individuals in CQE communities making landings of IFQ halibut and sablefish (combined), 1995 and 2011 .....	16
Table 2-12	QS units transferred, 1995 and 2011.....	17
Table 2-13	Sample average annual transfer price for halibut and sablefish QS (with associated IFQ lbs. in the year of transfer), by management area .....	20
Table 2-14	Prospective investment and return for 50,000 lbs. of QS, 2011 price levels .....	22
Table 2-15	Amount of halibut and sablefish QS potentially affected by this action, and proportion of that QS that is held in small blocks.....	25
Table 2-16	Gross ex-vessel value of the halibut and sablefish IFQ fishery, 2007 to 2011 .....	26
Table 2-17	Commercial halibut catch limits in the Gulf of Alaska, 2002 – 2012 (millions of pounds). .....	27
Table 2-18	IFQ halibut landings, 2010 & 2012 .....	27
Table 2-19	Top 6 IFQ halibut ports for the 2011 fishing year .....	27
Table 2-20	Halibut estimated ex-vessel prices by management area and year, 1992 to 2011 .....	28
Table 2-21	Commercial sablefish catch limits in the Gulf of Alaska, 2002 – 2012 (in millions of lbs). .....	28
Table 2-22	IFQ sablefish landings, 2010 & 2012 .....	29
Table 2-23	Top 6 IFQ sablefish ports for the 2011 fishing year .....	29
Table 2-24	Sablefish estimated ex-vessel prices by management area and year, 1992 to 2011 .....	30
Table 2-25	Proportion of QS blocks that are restricted from CQE purchase under Alternative 1 .....	34
Table 2-26	Options 1 & 2 – Halibut: Additional small block QS available to CQEs (2013 QS pool).....	38
Table 2-27	Options 1 & 2 – Sablefish: Additional small block QS available to CQEs (2013 QS pool) .....	39
Table 2-28	Average number of IFQ pounds per small QS block, Option 1 quota share pool & Option 2 quota share pool.....	40
Table 2-29	Option 3: Range of small block QS holdings among residents of CQE communities.....	41
Table 2-30	Number of individual QS holders in CQE communities, 2013 .....	42

## EXECUTIVE SUMMARY

This Regulatory Impact Review (RIR) was prepared to evaluate the economic and socioeconomic effects of a proposed Federal regulatory amendment, as required under Presidential Executive Order 12866. The proposed amendment would be to revise the Gulf of Alaska Community Quota Entity (CQE) Program, which was approved by the North Pacific Fishery Management Council (Council) in 2002 and implemented by NMFS in 2004, under Amendment 66 to the Gulf of Alaska (GOA) Fishery Management Plan. The program was developed in order to allow a distinct set of small, remote coastal communities located in the Gulf of Alaska to purchase catcher vessel quota share (QS) under the existing halibut and sablefish Individual Fishing Quota (IFQ) Program.

The IFQ Program limits access to the halibut and sablefish fisheries to those persons holding quota share in specific management areas. Quota shares equate to individual harvesting privileges, given effect on an annual basis through the issuance of IFQ permits. The Council and NMFS intended the IFQ Program to improve the long-term productivity of the halibut and sablefish fisheries, while retaining the character and distribution of the fishing fleets, as much as possible. During the development of the IFQ Program, the Council built in provisions to address concerns regarding transferability and the goal of preserving an owner-operated fleet. Among other things, the Council was concerned about consolidation of ownership and divestiture of coastal Alaskans from the fisheries. One such provision was to tag the quota issued to small operators as “blocks.” Small initial allocations of halibut or sablefish QS were identified as “blocked,” meaning that they must be sold as a unit. The purpose of the QS block provision was to ensure that smallest, most affordable QS would remain available to a part-time fleet of smaller operators in order to maintain some of the fleet diversity that existed under open access. The Council placed restrictions on how many blocks of QS that an individual could hold. The purpose of block restriction was to check the ability of operators with greater capital or operating efficiency to buy out the fishery access of operators who received small initial allocations.

Although many have benefitted from the IFQ Program, a significant number of quota holders in Alaska’s smaller coastal communities chose to transfer their quota to others, or moved out of these communities. As a result of quota transfers, the number of quota holders and the total amount of quota held by residents of remote communities declined since the inception of the IFQ Program. In 2004, Under GOA Amendment 66, the Council revised the IFQ Program by adding the Community Quota Entity Program (CQE). The CQE Program allows a distinct set of GOA communities with few economic alternatives to purchase and hold catcher vessel QS, in order to sustain participation in the commercial halibut and sablefish fisheries. The annual IFQ resulting from this QS can be leased to community residents. The CQE Program was also intended as a way to promote ownership by individual residents, as individuals who lease annual IFQ from the CQE may gradually move into a position to purchase their own quota share. At the outset of the Program, it was thought that CQEs might have greater access to capital than individuals, so they might naturally move to buy up the small blocks of QS that are most desired by the same small operators whom CQEs were established to support. In order to preserve opportunities for individual QS holders, the Council included a restriction for certain areas that did not allow CQEs to purchase blocked QS of less than a minimum size. The small block provision currently restricts CQEs from purchasing “sweep-up” size blocks of halibut QS in Areas 2C and 3A, and sablefish QS in the Southeast Outside, West Yakutat, Central Gulf and Western Gulf GOA management areas.

This analysis examines two alternatives, one of which is the no action alternative:

Alternative 1: Status quo.

**Alternative 2:**

**Option 1:** Allow CQE communities to purchase any size block of halibut and sablefish quota share (**Council preferred alternative**).

**Option 2:** Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of any CQE community.

**Option 3:** Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of their CQE community.

The Council selected a preferred alternative (Alternative 2, Option 1) in April 2013. The action alternative (Alternative 2) would revise Federal regulations to allow CQEs to purchase any size block of quota share from any QS holder, or from a subset of QS holders determined by the location of the holder's residence. Staff has completed this analysis under the assumption that other existing restrictions on CQE purchase of QS would remain in place under Alternative 2. These restrictions include: block restrictions, which limit each CQE to holding no more than 10 blocks of halibut QS and 5 blocks of sablefish QS in each management area; location restrictions, which allow only CQEs located in Area 2C to purchase and use 2C halibut QS, and do not allow CQEs located in Area 2C to purchase and use 3B halibut QS; vessel size restrictions, which preclude CQEs from purchasing D category halibut QS (for use on vessels  $\leq 35'$  LOA) in Area 2C<sup>1</sup>; and individual and cumulative QS use caps for CQEs.

For each affected management area, Table ES-1 summarizes the number of small blocks in the 2013 quota share pool and the proportion of the total QS pool that these small blocks represent. Table ES-1 also breaks out small blocks by vessel size category; over 90% of the small block halibut QS in Areas 2C and 3A are in Categories C and D ( $\leq 60'$  LOA), and roughly 50% to 90% of small block sablefish QS are in Category C ( $\leq 60'$  LOA). For the areas where block size restrictions apply, Table ES-2 lists the minimum size block that a CQE is allowed to purchase, as well as the 2013 IFQ harvest equivalent associated with a block of that size.

**Table ES-1 Small QS blocks as a proportion of total QS and total blocked QS, by vessel category (2013)**

Halibut												
Area	Total Blocked QS	% of Total QS in Small Blocks	% of Blocked QS	# Small Blocks	# Small Blocks & QS by Category							
					A		B		C		D	
2C	42,162,115	26%	36%	963	9	151,533	22	399,863	476	8,720,747	456	5,943,636
3A	65,341,809	13%	37%	1,107	14	270,203	58	1,534,265	563	14,161,745	472	7,886,991
3B	24,957,727	16%	35%	336	3	49,003	49	1,230,349	229	6,189,494	55	1,200,785

Sablefish												
Area	Total Blocked QS	% of Total QS in Small Blocks	% of Blocked QS	# Small Blocks	# Small Blocks & QS by Category							
					A		B		C			
SE	9,724,565	4%	28%	156	3	63,693	14	337,060	139	2,301,014		
WY	6,919,091	5%	40%	122	8	143,026	23	557,997	91	2,034,729		
CG	8,393,054	3%	37%	180	5	66,576	47	778,022	128	2,219,549		
WG	7,193,424	4%	19%	59	9	257,960	22	558,805	28	536,601		

<sup>1</sup> GOA FMP Amendment 94 allows CQEs located in Area 3A to purchase Area 3A D Category halibut QS (78 FR 33243, June 4, 2013).

**Table ES-2 Small block size restrictions (QS units) and 2013 IFQ equivalents (lbs.)**

**Halibut**

Area	QS Block Size	IFQ lbs. (2013 TAC)
2C	33,320	1,662
3A	46,520	2,776

**Sablefish**

Area	QS Block Size	IFQ lbs. (2013 TAC)
SE	33,270	3,539
WY	43,390	3,176
CG	46,055	4,029
WG	48,410	4,148

The quantitative analysis of Alternative 2 considers maximum potential impacts, meaning the analyst assumes that all eligible communities form CQEs and secure funding to purchase as much of the newly available small blocks as possible.

Under Option 1 of the action alternative, CQEs could, on aggregate, purchase the total amount of newly available small block QS without reaching the cumulative use cap for any area. In effect, though, the limit on the number of blocks that a CQE can hold in each area (10 halibut, 5 sablefish) would constrain CQEs from purchasing all of the available small blocks of halibut QS. This is true even considering that Alternative 2 would not allow CQEs to purchase Category D halibut QS in Area 2C, and some of the Category D halibut QS in Area 3A; the statement also considers that location restrictions would still apply, barring CQEs located in Areas 3A and 3B from purchasing Area 2C QS. If CQEs purchased up to their block limits, the maximum amount of QS units in community ownership would vary depending on which specific blocks they acquired, as each small block on the market contains a different amount of QS.

**Table ES-3 Small block QS available for CQE purchase under Alternative 2, Option 1**

	Area	# Small Blocks	Small Block QS	2013 IFQ lbs.	QS value (2011)
Halibut	2C	507	9,272,535	462,471	15,044,168
	3A	1,106	23,853,204	1,423,222	45,984,310
Sablefish	SE	156	2,701,767	287,361	7,209,884
	WY	122	2,735,752	200,275	5,129,034
	CG	179	3,064,147	568,079	12,969,251
	WG	59	1,353,366	115,970	1,547,035

Notes: Figures reported for Area 2C omit 455 small blocks of Category D halibut QS (296,440 IFQ lbs.); Figures reported for Area 3A include 471 small blocks of Category D halibut QS (470,584 IFQ lbs.), a portion of which is available exclusively to CQEs located in Area 3A communities.

Option 2 would expand the small block QS available to CQEs by the amount of QS that is collectively held in eligible CQE communities. At present, while small block holdings make up a significant portion of CQE community residents' holdings, this subset of small blocks is only a small fraction of the total small block QS. Assuming full participation, CQEs could collectively access the entire amount of newly available small block QS.

**Table ES-4 Small block QS available for CQE purchase under Alternative 2, Option 2**

	Area	# Small Blocks	Small Block QS	2013 IFQ lbs.	QS value (2011)
Halibut	2C	59	1,019,380	50,842	1,653,887
	3A	100	2,030,041	121,124	3,913,520
Sablefish	SE	13	118,580	12,612	316,440
	WY	4	56,263	4,119	105,483
	CG	6	135,043	11,815	269,732
	WG	3	39,005	3,342	44,587

Notes: Figures reported for Area 2C omit 76 small blocks of Category D halibut QS (40,113 IFQ lbs.); Figures reported for Area 3A include 55 small blocks of Category D halibut QS (61,671 IFQ lbs.), a portion of which is available exclusively to CQEs located in Area 3A communities.

Option 3 would expand the pool of quota available to CQEs by a modest amount in those CQE communities where residents presently hold small block QS. However, many eligible communities do not have any residents in possession of small block quota. Option 3 would not represent a change from the status quo in these communities. Of the 45 eligible communities considered in this action, 17 do not have any residents who hold halibut small blocks, and 31 do not have any residents who hold sablefish small blocks.

The qualitative analysis of Alternative 2 considers potential changes in access to fishery participation, potential effects on the market price for QS, and the socioeconomic trade-offs associated with shifting a portion of the QS pool from private to public ownership.

#### Changes in Access to Fishery Participation

Easing restrictions on CQE purchase of QS would likely provide greater fishing opportunities to the residents of CQE communities by increasing access to lower-cost quota, though the extent to which this occurs will be shaped by CQEs' progress in securing the financial support necessary to take advantage of new opportunities. This may be a necessary condition for increased CQE participation, as CQEs currently face rising prices in the QS market without the benefit of initially allocated quota for use as an asset base in borrowing. Leasing quota from a CQE at favorable terms, compared to market lease fees, may aid new entrants in building up the financial base necessary to purchase individual QS in the future. In this sense, the program does not serve to discourage, but rather could facilitate, individual ownership of QS. Allowing CQEs access to purchase small block QS could also provide a currently lacking tool to keep fishery access in the community as initial allocation recipients voluntarily retire or reduce their active participation. If the rate of QS consolidation increases in the future, as a result of continued growth in QS prices, the CQEs' role in preserving remote community fishery access could become even more important.

Option 1 (Council preferred alternative) presents the largest opportunity for CQEs and CQE community residents to benefit by increased community quota ownership. However, CQE purchase of "outside shares" is likely constrained by the non-profits' current difficulty in financing open market transfers. If it is true that CQEs will rely on sellers who are motivated to see the QS remain in the CQE community, then the effective difference in the number of viable transactions available under Option 1 versus under Options 2 and 3 may not be large.

Some individuals could experience a negative impact if there is more competition on the market for affordable QS. The potential for residents of non-CQE communities to experience reduced available QS is not limited to Option 1, where CQEs could purchase newly available small blocks from the entire set of GOA communities. Under Options 2 and 3, QS held by CQE community residents may be transferred to CQEs whereas, under the status quo, it would more likely have entered to the open market. Similarly,

increased community QS ownership could reduce access to quota for CQE community residents who are looking to purchase individual holdings, especially if QS sellers demonstrate a preference for selling to CQEs.

Assessing the net effect of reduced quota availability for individual CQE residents is more nuanced compared to effects on non-CQE residents. CQE acquisition of QS that would otherwise have left the community would appear to be a clear net benefit, and one might assume that QS would only *necessarily* leave the community if there were no individual participants within the community willing to make a purchase. Shifting QS from individual to community ownership creates a reduction in the economic productivity of QS, as a substantial portion of gross fishing revenues goes to cover CQE administrative costs and debt service. On the other hand, a community member could view CQE acquisition as a public investment in the community's future. CQE residents may experience broader social and economic benefits if a CQE is successful in its mission to preserve a fishing economy and way of life in their remote community.

#### Effects on the Quota Share Market

Making small blocks of catcher vessel QS available to CQEs could cause an increase in transfer market prices. This price effect could occur through either of two mechanisms: price competition, and reduced supply of small blocks on the open transfer market.

Competition could increase the market price for small block quota if the new set of prospective buyers under Alternative 2, CQEs, can afford to pay as much or more for small block QS than the existing participants. Individual fishermen, including resident fishermen in CQE communities, may experience greater competition in the market for small block QS, which is primarily comprised of QS in the small vessel categories. This type of demand-driven price effect would impact both CQE and non-CQE community resident who are in the market for QS. However, considering their disadvantaged position as new entrants to the QS market with few financial assets, increased CQE demand for small block QS is unlikely to have a large impact on prices.

Market prices could also increase if the amount of QS on the open market is reduced. Easing restrictions on CQE purchase of small blocks could reduce the open market supply of small block QS available for transfer if a number of sellers are especially motivated to transfer their quota holdings to community ownership. This supply-side market impact may occur where CQE residents who are reducing their active participation in the fishery utilize the considered action to keep harvest access in their home community. The magnitude of this effect is difficult to determine, as one might imagine that those individuals who wish to transfer their QS to CQEs might never have put their small block quota on the open market under the status quo.

Overall, this analysis does not provide any strong evidence to predict a large near-term QS price increase that is directly attributable to any of the options considered.

#### Social and Economic Aspects of Community-Held Quota

Increasing CQE quota share holdings will likely bring about both social and economic trade-offs. Social benefits may include increased fishery participation for a specific set of relatively disadvantaged communities, as well as the securing of future harvest opportunities for new entrants or those participants at the margin sustained economically viable operation. These social benefits may be localized, by nature. Depending on the option selected, CQEs could potentially purchase QS from individuals residing in non-CQE communities who would not share in the socioeconomic benefits delivered by CQEs. While all QS transfers are voluntary, and no individual resident would be forced to cede QS to CQEs, some individuals may experience an indirect marginal decrease in their access to quota, compared to the status quo. The

CQE Program has been explicit since its outset in acknowledging that it could have distributional impacts.

In addition to fishery access in the present year, QS ownership also carries a future value (or risk, depending upon one's outlook on the future status of fish stocks, product prices and operating costs). For Option 1 (Council preferred alternative), again assuming that any transfer of QS to a CQE is done voluntarily and at a fair market price, the action alternative should not be viewed as a direct detriment to non-CQE residents who sell QS. Any future value that does not accrue to individual CQE or non-CQE residents because the quota transferred to a community ownership could be viewed as an indirect impact; however, this impact is of the sort that the Council has acknowledged in creating the CQE program.

From an economic perspective, facilitating community QS purchase comes at a cost, but provisions in the CQE Program also offer some operational efficiencies that are not present when all remote community QS is held by individuals. These economic benefits, such as the ability to fish QS "up" on more efficient vessels with greater crew opportunities, would mainly accrue to CQE community residents. In some sense, CQE QS ownership *must* present some special social or economic benefit in order to compensate for its direct cost, which also accrues mainly to resident CQE participants. CQE ownership is costly to any individual who possesses an opportunity to fish individually held QS, as leasing from a CQE typically requires a payment of around 45% of gross fishing revenues. As mentioned before, the limited track record of CQE participation does not allow the analyst to assess whether a large-scale shift from individual to community quota ownership would constitute a net economic gain to the residents of CQE communities.

Based on the analysis and criteria under Presidential Executive Order 12866, the proposed action does not constitute a significant regulatory action, recognizing that there may be distributional impacts among the various participants affected. CQEs are the only directly regulated entity under the proposed action, and the intended and anticipated effect is beneficial to those entities.

## 1 INTRODUCTION

This document is a Regulatory Impact Review/Initial Regulatory Flexibility Analysis for a proposed amendment to the Fishery Management Plan (FMP) for Gulf of Alaska Groundfish. The action proposes to expand quota share (QS) purchase opportunities for community quota entities in the halibut and sablefish individual fishing quota (IFQ) fishery. The action would remove the minimum size restriction on blocks of QS where it currently applies, allowing community quota entities to purchase any size block from QS holders in the IFQ fishery, or from a subset of QS holders depending on the option selected.

The Pacific halibut fishery off Alaska is managed by NMFS, under the authority of the Northern Pacific Halibut Act of 1982, and in coordination with annual fishery management measures adopted by the International Pacific Halibut Commission (IPHC), under the Convention between the United States and Canada for the Preservation of the Halibut Fishery of the Northern Pacific Ocean and Bering Sea. The IPHC promulgates regulations governing the Pacific halibut fishery. Regulations that are not in conflict with approved IPHC regulations may be recommended by the North Pacific Fishery Management Council. The sablefish fishery is part of the groundfish fishery in the Exclusive Economic Zone (3 to 200 miles offshore) of the Gulf of Alaska (GOA). The groundfish fisheries are managed under the GOA FMP, developed by the North Pacific Fishery Management Council (Council) under the Magnuson-Stevens Fishery Conservation and Management Act. The GOA FMP was approved by the Secretary of Commerce and became effective in 1978. Council action must be approved and implemented by the Secretary of Commerce.

Executive Order 12866 requires the preparation of a Regulatory Impact Review (RIR) to assess the social and economic costs and benefits of available regulatory alternatives, in order to determine whether a proposed regulatory action is economically significant as defined by that order. This action would be a revision to the Community Quota Entity (CQE) Program, which was implemented by NMFS in 2004. The CQE Program was established in order to allow a distinct set of small, remote coastal communities located in the Gulf of Alaska to purchase catcher vessel quota share (QS) under the existing halibut and sablefish IFQ Program. This analysis is included in Section 2.

Section 3 addresses the requirements of the Regulatory Flexibility Act (RFA). The RFA requires an analysis of potential adverse economic impacts accruing to small entities that would be directly regulated by the proposed action.

The proposed action is a minor change to a previously analyzed and approved action, and the proposed change has no effect individually or cumulatively on the human environment (as defined in NAO 216-6). The action only addresses changes in the ability of CQEs to purchase and use quota share; it will have no effect on the human environment beyond those examined in the Environmental Assessment (EA) prepared for the analysis of GOA FMP Amendment 66.

## 2 REGULATORY IMPACT REVIEW

An RIR is required under Presidential Executive Order (E.O.) 12866 (58 FR 51735; October 4, 1993). The requirements for all regulatory actions specified in E.O. 12866 are summarized in the following statement from the order:

*“In deciding whether and how to regulate, agencies should assess all costs and benefits of available regulatory alternatives, including the alternative of not regulating. Costs and benefits shall be understood to include both quantifiable measures (to the fullest extent that these can be usefully estimated) and qualitative measures of costs and benefits that are difficult to quantify, but*

*nonetheless essential to consider. Further, in choosing among alternative regulatory approaches agencies should select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity), unless a statute requires another regulatory approach.”*

E.O. 12866 requires that the Office of Management and Budget review proposed regulatory programs that are considered to be “significant.” A “significant regulatory action” is one that is likely to:

- Have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, local or tribal governments or communities;
- Create a serious inconsistency or otherwise interfere with an action taken or planned by another agency;
- Materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients thereof; or
- Raise novel legal or policy issues arising out of legal mandates, the President’s priorities, or the principles set forth in this Executive Order.

## **2.1 Council problem statement**

The Council approved the following problem statement for this action in April 2013:

*Responsive to National Standard 8, the North Pacific Fishery Management Council established the Community Quota Entity (CQE) program to encourage sustained participation in the Halibut and Sablefish Quota Share Program by residents of smaller Gulf of Alaska fishery dependent communities. CQEs were prohibited from purchasing smaller “sweep up” blocks of quota shares because of concerns that CQE quota purchases could negatively impact quota share price and availability. Concerns about CQE purchase and market impacts on price and availability have not been realized and participation by CQEs in the marketplace has been limited. The purpose of lifting the block restriction for “B” and “C” class quota is to incrementally allow more CQE access to QS and thereby facilitate for the sustained participation by CQE community residents in the Halibut and Sablefish IFQ Program. The need for this amendment is to further address the problem of continued decline in the number of halibut and sablefish IFQ holders in small GOA fishery dependent coastal communities and to incrementally provide for better access for these fishermen through their local CQE to halibut and sablefish resources.*

## **2.2 Purpose and need**

In December 2012 the Council recommended an analysis of alternatives to evaluate the removal of restrictions on CQEs purchasing “sweep up” blocks (small blocks) of IFQ quota share. The Council’s action was responsive to public testimony first heard in June 2012, stating that a resident of a CQE community was unable to sell his block of halibut IFQ to the community’s CQE due to the minimum block size purchase restriction.

The CQE Program was established in 2004 in order to provide communities with an opportunity to increase participation in the halibut and sablefish IFQ fishery, which had experienced a high degree of consolidation and outflow of QS ownership from remote, fishery dependent communities since the creation of the IFQ fishery in 1994 (CFEC 1999b). GOA FMP Amendment 66, which established the CQE Program, responded to concerns that CQEs may have greater access to capital for the purchase of QS than some individual operators. As a result the CQE Program included a provision that, in certain

regulatory areas, restricted CQEs from purchasing blocks of QS that are below a minimum size. The intent of this program element was to shelter the smallest and least costly blocks of QS from market competition on the part of CQEs. The concern, at the time, was that CQE demand for small blocks could negatively impact the price and availability of the type of QS that is typically the most feasible purchase option for smaller operators and new entrants in remote GOA communities. In designing this element, the Council aimed to preserve opportunities for small individual QS holders and new entrants, and to maintain diversity within the fleet. The overall purpose of community QS ownership is to lease IFQ to several individual residents. In effect, both the CQE program and the block provision were intended to protect the same set of stakeholders.

The majority of small blocks are classified as ‘C’ or ‘D’ category in the halibut IFQ fishery (for use on vessels  $\leq 60'$  LOA, or  $\leq 35'$  LOA, respectively) and as ‘C’ category in the sablefish IFQ fishery (for use on vessels  $\leq 60'$  LOA). QS in these categories is typically less expensive. CQEs, like other new entrants, have had difficulty in funding the purchase of QS; to date, only two of the 30 CQEs organized have purchased QS. CQEs looking to purchase QS may prefer the least costly category, which corresponds to the vessel category that most residents of the smaller communities use. In approving GOA FMP Amendment 96, the Council acknowledged that small blocks of small vessel category QS might be feasible for CQEs to purchase and lease to start-up operations. Moreover, some resident crewmembers of CQE communities who cannot afford to purchase fishable amounts of QS may benefit by leasing small vessel shares from CQEs. Finally, public testimony relating to this and other IFQ actions suggests that individuals who wish to transition out of the fishery may prefer to transfer shares to the CQE representing their community, in order to ensure that the QS stays within the community.

Recognizing that there has been low participation in the CQE Program thus far, and that community purchase of small blocks could potentially benefit those residents whom the small block restriction was intended to protect, the Council has proposed the following alternatives.

## **2.3 Alternatives**

The Council approved two alternatives in December 2012. Alternative 1 is the no action alternative, meaning the current prohibition on CQE purchase of small (“sweep up”) blocks of halibut and sablefish quota share would remain in effect for the management areas in which they currently apply. Alternative 2 has three options, and would revise Federal regulations to allow CQEs to purchase any size block of quota share from any QS holder, or from a subset of QS holders determined by the location of the holder’s residence. Throughout this document, a QS holder’s residence is determined by what the individual self-reports to NMFS RAM.

Staff has completed this analysis under the assumption that other existing restrictions on the transfer of QS would remain in place if Alternative 2 is selected. These restrictions include (but are not limited to): block restrictions, which limit each CQE to holding no more than 10 blocks of halibut QS and 5 blocks of sablefish QS in each management area; location restrictions, which allow only CQEs located in Area 2C to purchase and use 2C halibut QS, and do not allow CQEs located in Area 2C to purchase and use 3B halibut QS; vessel size restrictions, which preclude CQEs from purchasing D category halibut QS in Area 2C<sup>2</sup>; and individual and cumulative QS use caps for CQEs (defined in Section 2.6.1, Table 2-3).

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<sup>2</sup> GOA FMP Amendment 94 allows CQEs located in Area 3A to purchase Area 3A D Category halibut QS (78 FR 33243, June 4, 2013).

The alternatives evaluated are as follows:

Alternative 1: Status quo.

**Alternative 2:**

**Option 1:** Allow CQE communities to purchase any size block of halibut and sablefish quota share (**Council preferred alternative**).

Option 2: Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of any CQE community.

Option 3: Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of their CQE community.

## **2.4 Statutory authority for this action**

The International Pacific Halibut Commission and NMFS manage fishing for Pacific halibut through regulations established under the authority of the Halibut Act. The IPHC promulgates regulations governing the Pacific halibut fishery, under the Convention between the United States and Canada for the Preservation of the Halibut Fishery of the North Pacific Ocean and Bering Sea, signed in Ottawa, Ontario, on March 2, 1953, as amended by a Protocol Amending the Convention, signed at Washington, D.C., on March 29, 1979.

Regulations that are not in conflict with approved IPHC regulations may be recommended by the Council, and Council action must be approved and implemented by the Secretary of Commerce. Regulations implementing the Halibut Act in waters in and off Alaska appear at 50 CFR part 300.60 - 300.66.

Under the Magnuson-Stevens Act (16 USC 1801, et seq.), the United States has exclusive fishery management authority over all marine fishery resources found within the EEZ. The management of these marine resources is vested in the Secretary of Commerce (Secretary) and in the regional fishery management councils. In the Alaska Region, the Council has the responsibility for preparing FMPs and FMP amendments for the marine fisheries that require conservation and management, and for submitting its recommendations to the Secretary. Upon approval by the Secretary, NMFS is charged with carrying out the federal mandates of the Department of Commerce with regard to marine and anadromous fish.

Gulf of Alaska groundfish fisheries in the EEZ off Alaska are managed under the FMP for Groundfish of the Gulf of Alaska. Regulations implementing the commercial IFQ fishery for Pacific halibut and sablefish may be found at 50 CFR 679: Fisheries of the Exclusive Economic Zone Off Alaska, Subpart D – Individual Fishing Quota Management Measures, Sections 679.40 through 679.45. Actions taken to amend FMPs or implement other regulations governing these fisheries must meet the requirements of federal law and regulations.

## **2.5 Affected management areas**

The action considered in this analysis pertains to the CQE Program's block restriction within the GOA halibut and sablefish IFQ Program. Minimum size limits apply to quota share blocks in halibut management Areas 2C and 3A (Figure 2-1), and to blocks in the Southeast Outside, West Yakutat, Central GOA, and Western GOA sablefish management areas. Halibut Area 3B is included in some background and analytical elements of this report, as CQEs located in Area 3A and 3B are permitted to purchase and use quota share in Area 3B.

Figure 2-1 Relevant regulatory areas for the Pacific halibut fishery

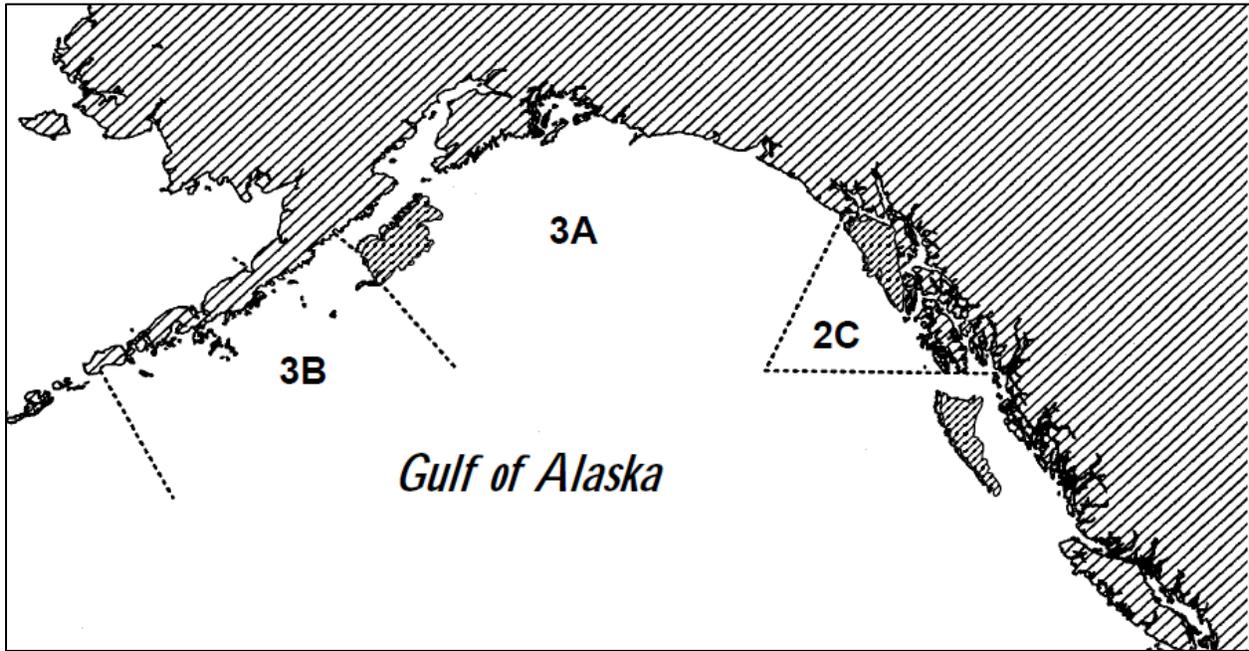
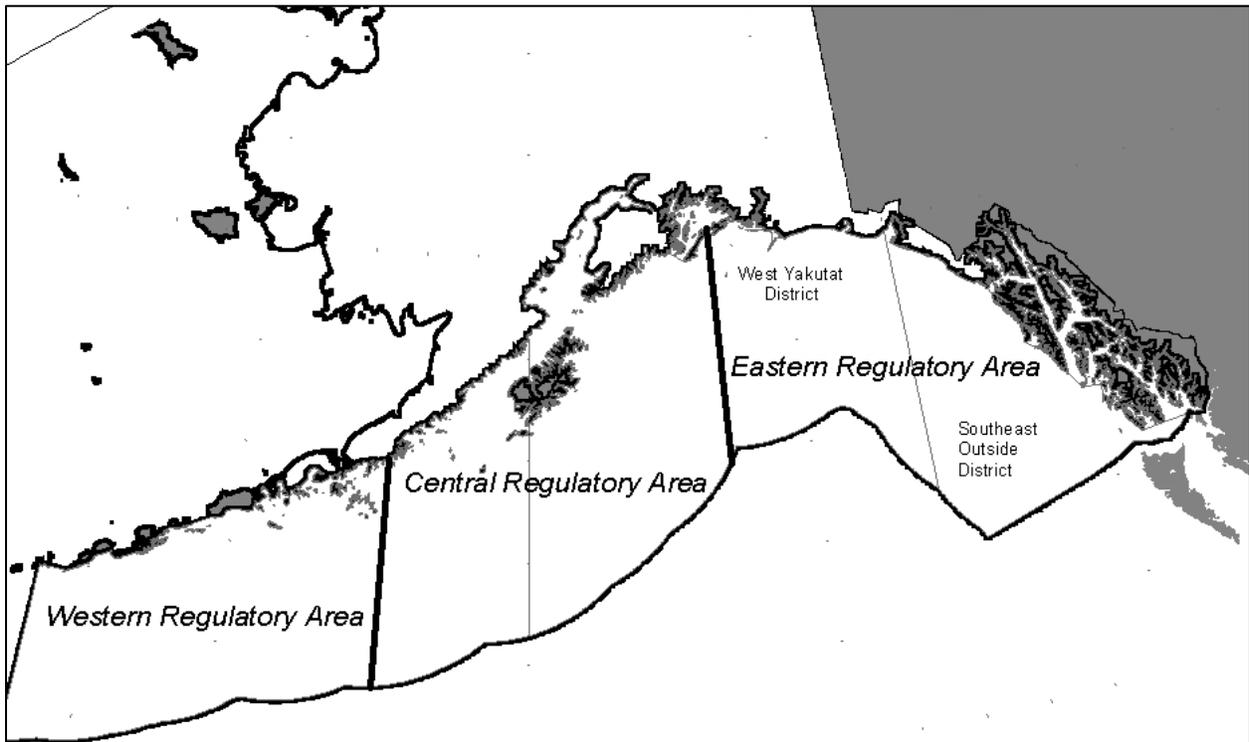


Figure 2-2 Regulatory areas for the Gulf of Alaska sablefish fishery



## **2.6 Background**

### **2.6.1 CQE Program history and intent**

#### **2.6.1.1 Halibut and Sablefish IFQ Program**

The Council recommended a limited access system for the fixed gear halibut and sablefish fisheries off Alaska, in 1992. NMFS approved the halibut and sablefish IFQ Program in January 1993, and implemented the program on November 9, 1993 (58 FR 59375). Fishing under the IFQ Program began on March 15, 1995. The Council and NMFS developed the IFQ Program to resolve the conservation and management problems commonly associated with open access fisheries. The preamble to the proposed rule, published on December 3, 1992 (57 FR 57130), describes the issues leading to the Council's recommendation for the IFQ Program to the Secretary.

The IFQ Program limits access to the commercial directed halibut and sablefish fisheries to those persons holding quota share in specific management areas. The Council and NMFS designed the IFQ Program to provide economic stability to the commercial halibut and sablefish fixed gear fisheries. Quota shares equate to individual harvesting privileges, given effect on an annual basis through the issuance of IFQ permits. An annual IFQ permit authorizes the permit holder to harvest a specified amount of an IFQ species in a designated regulatory area. The specific amount (in pounds) is determined by the number of QS units held for that species, the total number of QS units issued for that species in a specific regulatory area, and the total amount of the species allocated for IFQ fisheries in a particular year. If the abundance of halibut or sablefish decreases over time, the total allowable catch (TAC) for that species will decrease and, subsequently, the number of pounds on a person's annual IFQ permit also will decrease. By ensuring access to a certain amount of the TAC at the beginning of the season, and by extending the season over a longer period, QS holders may determine where and when to fish, how much gear to deploy, and how much overall investment to make in harvesting.

The Council and NMFS also intended the IFQ Program to improve the long-term productivity of the halibut and sablefish fisheries, by further promoting the conservation and management objectives of the Magnuson-Stevens Act and the Halibut Act, while retaining the character and distribution of the fishing fleets, as much as possible. During the development of the IFQ Program, the Council built in several provisions to address concerns regarding transferability and the goal of preserving an owner-operated fleet. Among other things, the Council was concerned about consolidation of ownership and divestiture of QS by coastal Alaskans, removing small community access to and participation in the fisheries.

Ultimately, the Council provided a design which was intended to control transferability through: (1) limits on the amount of QS which could be owned or controlled by individuals and companies (Table 2-1); (2) establishment of vessel size categories; (3) restrictions on who could purchase catcher vessel QS; and (4) limitations on leasing certain categories of QS (Pautzke and Oliver 1997). A report on the development of the program from Pautzke and Oliver states, "The primary intent of the Council in adopting these provisions was to maintain a diverse, owner-operated fleet and prevent a 'corporate', absentee ownership of the fisheries" (p. 14).

**Table 2-1 Regulatory limits on individual QS holdings, and 2013 IFQ equivalents**

Species	Applicable %	QS Use Cap	IFQ lbs (2013)
Halibut	1% of 2C QSP	599,799	<b>29,915</b>
	0.5% of 2C, 3A, 3B QSP	1,502,823	<b>74,954</b> lbs if all 2C quota <sup>1</sup> ; <b>89,667</b> lbs if all 3A quota; <b>118,988</b> if all 3B quota
Sablefish	1% of SE QSP	688,485	<b>73,228</b>
	1% of all QSPs	3,229,721	<b>343,514</b> lbs if all SE quota <sup>2</sup> ; <b>236,436</b> if all WY quota; <b>282,565</b> lbs if all CG quota; <b>276,754</b> lbs if all WG quota

<sup>1</sup> Note that Area 2C use cap (29,915) is also in place, so 74,945 is only a theoretical limit.

<sup>2</sup> Note that SE use cap (73,228) is also in place, so 688,485 is only a theoretical limit.

This program changed the management structure of the fixed gear halibut and sablefish program by issuing QS to qualified applicants who owned or leased a vessel that made fixed gear landings of halibut during 1988 through 1990.<sup>3</sup> Halibut quota share is specific to one of eight halibut management areas throughout the BSAI and GOA, and four vessel categories: freezer (catcher processor) category (Category A); greater than 60' LOA (Category B); 36' to 60' (Category C); and 35' or less (Category D). The quota share issued was permanently transferable, with several restrictions on leasing. As stated above, the Council developed leasing and other restrictions in order to achieve some benefits associated with IFQ management, but also to retain the owner-operator nature of the fisheries and limit consolidation of quota share. To that end, the Council only allowed persons who were originally issued catcher vessel quota share (B, C, and D category) or who qualify as an IFQ crew member<sup>4</sup> to hold or purchase catcher vessel quota share. Thus, only individuals and initial recipients could hold catcher vessel quota share, and with few exceptions, they are required to be on the vessel (i.e., actively fish) the QS.

During the development of the IFQ Program, the Council noted that maintaining diversity in the halibut and sablefish fleets and minimizing adverse impacts to coastal community were particularly important considerations, since these fisheries had typically been characterized by small vessel participation by thousands of fishermen, many of whom resided in small coastal communities in Alaska and the Pacific Northwest (Pautzke and Oliver 1997). In addition, the 1996 amendments to the Magnuson-Stevens Act require that management programs take into account the social context of the fisheries, especially the role of communities (§ 301[a][8], 303 [a][9]).<sup>5</sup>

One measure taken by the Council to maintain fleet diversity and access for small operators was to tag the quota issued to small operators as “blocks.” The Council placed restrictions on how many blocks of QS that an individual could hold. The purpose of block restriction was to check the ability of operators with greater capital or operating efficiency to buy out the fishery access of operators who received small initial allocations.

<sup>3</sup> Regular QS units were equal to a person’s qualifying pounds for an area. Qualifying halibut pounds for an area were the sum of pounds landed from the person’s best 5 years of landings over a 7-year period (1984 through 1990). Qualifying sablefish pounds for an area were the sum of pounds landed from the person’s best 5 years of landings over a 6-year period (1985 through 1990).

<sup>4</sup> IFQ crew member means any individual who has at least 150 days experience working as part of the harvesting crew in any U.S. commercial fishery, or any individual who receives an initial allocation of QS (50 CFR 679.2).

<sup>5</sup> Although halibut is managed under the authority of the Halibut Act (sablefish is managed under the MSA), the Council considers the impacts of all its management measures on fishery-dependent communities.

### 2.6.1.2 Community Quota Entity Program

Although many have benefitted from the IFQ Program, a significant number of quota holders in Alaska's smaller coastal communities chose to transfer their quota to others, or moved out of these communities. As a result of quota transfers, the number of quota holders and the total amount of quota held by residents of small, coastal communities declined since the inception of the IFQ Program. Local conditions, location, and market forces were likely factors in the sale of QS originally held by residents of small communities. Among such conditions and forces listed in a report were: (1) higher costs to access markets for harvesters landing fish in remote communities; (2) the tendency for fishermen based in remote communities to fish smaller amounts of quota on smaller, less efficient vessels that return lower profit margins compared to larger operations; and (3) the general observation that fishing infrastructure in remote communities tends to be less complete (McDowell 2005).

The Gulf of Alaska Coastal Communities Coalition submitted a proposal to the Council, citing the disproportionate amount of QS transfers out of smaller, rural communities, and noting that this trend may have a severe effect on employment and related social and economic impacts. The lack of sustained participation in the smallest, rural Gulf communities was identified by the Council as a concern, and the Council approved an action in 2002 that allowed a specified set of small communities to purchase commercial halibut and sablefish catcher vessel QS, to attempt to alleviate this issue. Under GOA Amendment 66, the Council revised the IFQ program to allow a distinct set of 42 remote coastal communities, with few economic alternatives, to purchase and hold catcher vessel QS in Areas 2C, 3A and 3B, in order to help ensure access to and sustain participation in the commercial halibut and sablefish fisheries. The program now includes 46 eligible communities, one of which is located in Area 4B and is not included in this action.<sup>6</sup> The current list of eligible communities is provided in Section 2.6.3 (Table 2-9). Eligible communities can form non-profit corporations called CQEs to purchase catcher vessel QS. The annual IFQ resulting from QS can only be leased to community residents. Multiple communities may also choose to join together in forming a single CQE.

CQE-held QS is intended to be leased out on an annual basis to community resident fisherman, and done according to an approved set of criteria that each CQE must develop upon its formation. The Council outlined three performance standards that express its intent regarding the distribution and use of community-held QS:

1. Equitable distribution of IFQ leases within a community;
2. The use of IFQ by local crew members;
3. The percentage of IFQ resulting from community-held QS that is fished on an annual basis.

Communities are not required to follow a common rubric for distributing QS; for example, some may choose to emphasize providing fishing opportunities to new entrants, while others may focus on ensuring that resident IFQ holders' crews are comprised of resident crewmembers.

The Agency determines community eligibility according to the following criteria: maximum population of 1,500 people, documented historical participation in the IFQ fishery or fisheries, direct access to the GOA coast, and no road access to a larger community. NMFS RAM Program data show that a small amount of QS (both per capita and relative to the total initial QS pool) was initially issued to residents of most of the CQE communities. This may, in part, explain the transfer of QS from residents of those communities. Evidence suggests that many residents who were initially issued relatively small

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<sup>6</sup> In 2014, the CQE Program was revised to allow a community non-profit organization to represent Adak, for the purpose of purchasing Area 4B halibut catcher vessel QS and Aleutian Islands sablefish catcher vessel QS (79 FR 8870, February 14, 2014).

allocations, such as a few thousand pounds, sold their quota share in the first few years of the program. Several reasons for this are available anecdotally. Residents of these communities fish opportunistically in multiple fisheries, so, under a three year qualifying period, most residents may not have qualified for a sufficiently large share of halibut or sablefish QS to support an economically viable fishing operation; these individuals may not have been able to afford the purchase of additional QS to support a viable business plan. In contrast, fishermen who received larger initial allocations were more able to finance additional QS purchases with the capital generated from their new asset base.

RAM Program and CFEC data confirm that: (1) the rate of decline in the amount of QS held by residents of the smaller Gulf communities has been higher than that of the larger communities; (2) the bulk of the QS consolidation has taken place in the smaller holdings; and (3) very few initial recipients of large quota share holdings reside in the CQE communities.<sup>7</sup> Various data sources have illustrated the early out-migration of halibut and sablefish fishing effort from the smaller GOA communities, and the subsequent impact on the diversified fishing portfolios of community residents (CFEC 1998; DORY 1999). Refer to previous research for a more detailed evaluation of halibut quota transfer patterns out of small, rural communities (Carothers 2010; Queirolo 2006).

**Table 2-2 Percent of QS held by residents of CQE communities, at initial issuance (1995) and for fishing year 2013**

Halibut	2C, 3A & 3B	2C	3A	3B
	Total			
1995	8.8%	17.8%	4.9%	12.1%
2013	5.8%	10.5%	3.5%	8.8%

Sablefish	SE, WY, CG, WG	SE	WY	CG	WG
	Total				
1995	4.9%	12.6%	1.5%	2.3%	3.6%
2013	2.1%	5.5%	0.3%	1.6%	0.4%

Source: NOAA Fisheries, AKR, RAM. Data as of 3/1/13

Note: 2013 data include Area 3B halibut QS held by two CQEs. Excluding the CQE-held QS would reduce CQE community halibut Area 3B holdings in 2013 to 8.3% of the total

In effect, a CQE that purchases and leases out QS remains the holder, creating a permanent asset for the community to use to benefit its residents. The QS can only be sold in order to improve the community's position in the program, or to meet legal requirements; thus, the QS must remain with the community entity.<sup>8</sup> The CQE Program was also intended as a way to promote ownership by individual residents, as individuals who lease annual IFQ from the CQE may gradually move into a position to purchase their own quota share (although, presumably not from the CQE). During the development of the program, it was noted that both community and individually-held quota were important in terms of fishing access and economic health. This amendment was approved by the Secretary of Commerce and became effective in June 2004.

The CQE Program includes several elements which make CQEs subject to either more, the same, or fewer constraints than individual quota share holders. In some cases, the CQE is subject to the same latitude and

<sup>7</sup> "Holdings of Limited Entry Permits, Sablefish Quota Shares, and Halibut Quota Shares Through 1998 and Data on Fisheries Gross Earnings," CFEC. 1999.

<sup>8</sup> If the CQE sells its QS for any other reason, NMFS will withhold annual IFQ permits on any remaining QS held, and will disqualify the CQE from holding QS on behalf of that community for 3 years. It also requires that the CQE divest itself of any remaining QS on behalf of that community.

limitations as individual users, as if the CQE is simply another category of eligible person. For example, a CQE is held to the same quota share cap as an individual holder (Table 2-1). In other cases, the CQE is subject to less restrictive measures than individual holders. For example, the vessel size categories do not apply to QS when held by CQEs.<sup>9</sup> Also, CQEs are allowed to hold a greater number of QS blocks than are individuals (the quota share block element of the IFQ program is discussed in more detail below). In yet other cases, the CQE is subject to more restrictive measures than individuals, in part, to protect existing holders and preserve entry-level opportunities for fishermen residing in other (non-eligible) fishery-dependent communities. The action under consideration would remove one of those status quo measures; specifically, that CQEs cannot purchase halibut blocks of QS that are below a minimum size in halibut management Areas 2C or 3A, or sablefish blocks of QS in the Southeast Outside, West Yakutat, Central GOA or Western GOA sablefish management areas.

Three other restrictions that apply specially to CQEs are: (1) a cap on the amount of QS that all CQEs combined can purchase (Table 2-3); (2) a limit of 50,000 lbs. of halibut IFQ and 50,000 lbs. of sablefish IFQ that CQEs may lease to an individual resident; and (3) a limit of 50,000 lbs. of halibut IFQ and 50,000 lbs. of sablefish IFQ that may be used on an individual vessel that harvests any IFQ derived from CQE-owned QS. GOA Amendment 94 revised the 50,000 lbs. CQE-derived IFQ vessel use cap to no longer be inclusive of IFQ derived from QS that the leasing individual personally owns (78 FR 33243, June 4, 2013).

**Table 2-3 Regulatory limits on combined CQE QS holdings, and 2013 IFQ equivalents**

Species	Area	QS Use Cap	IFQ lbs (2013)
Halibut	2C	12,502,599	623,571
	3A	38,827,532	2,316,679
	3B	11,382,276	901,210
Sablefish	SE	13,885,330	1,476,849
	WY	11,185,950	818,884
	CG	23,454,191	2,051,985
	WG	7,566,212	648,347

Note: As of 2010, combined CQE QS holdings are limited to 21% of the total QS pool in each area (50 CFR 679.42(e)(6) and (f)(5)).

## 2.6.2 Quota share blocks & CQE block restrictions

The purpose of the QS block provision was to ensure that the smallest, most affordable QS would remain available to a part-time fleet of smaller operators in order to maintain some of the fleet diversity that existed under open access, and thereby make the IFQ program less disruptive to isolated Alaska fishing communities (CFEC 1999b). Any initial allocation of halibut or sablefish QS that translated into less than 20,000 pounds (based on the 1994 TAC) was identified as “blocked,” meaning that it must be sold as a unit. A “sweep-up” provision allowed very small blocks to be combined into a more economically fishable amount if the total combined QS was less than a certain amount. The sweep-up consolidation limit was raised in 1996, and then again in 2004 and 2006.

With the advent of the CQE Program, a restriction was put in place that did not allow CQEs to purchase blocked QS below a minimum size for certain areas (Table 2-4). The minimum allowable block size was

<sup>9</sup> However, QS reverts back to its original vessel size category if a CQE makes an allowable transfer of the QS to an individual.

ties to the sweep-up limits for halibut and sablefish QS blocks; as those limits increased, so did the amount of lower-cost small QS blocks that were not available for purchase by CQEs. At the time, it was thought that CQEs might have greater access to capital than individuals, so they would naturally move to buy up the small blocks that are most desired by the very small operators whom CQEs were established to support. The block restriction applies to halibut QS in Areas 2C and 3A, and sablefish QS in the Southeast Outside (SE), West Yakutat (WY), Central GOA (CG), and Western GOA (WG) management areas.<sup>10</sup>

**Table 2-4 Number of blocked quota share units at (or beneath) which a block is considered “small”**

**Halibut**

Area	QS Block Size	IFQ lbs. (2013 TAC)
2C	33,320	1,662
3A	46,520	2,776

**Sablefish**

Area	QS Block Size	IFQ lbs. (2013 TAC)
SE	33,270	3,539
WY	43,390	3,176
CG	46,055	4,029
WG	48,410	4,148

\* Current regulation defines the minimum block size according to 5,000 pounds of IFQ harvest based on the 1996 quota share pool.

For each affected management area, Table 2-5 describes the 2013 quota share pool in terms of the proportion of halibut and sablefish QS that is blocked, the number of blocks in the fishery, and breakdown of block holdings by vessel size category. Table 2-6 provides the percentage of QS blocks that fall into each vessel size category. Again, note that catcher vessel QS (Categories B, C and D) can be leased out for fishing on any length vessel when it is held by a CQE, but the QS reverts to its original category if the QS is permanently transferred from the CQE to an individual holder. Categories C and D, encompassing all QS that must be fished on vessels less than or equal to 60’ in length when held by an individual, account for 96% of QS blocks in Area 2C and 91% in Area 3A. Category C sablefish QS, which also limits fishing activity to vessels  $\leq 60'$ , accounts for half or more of the QS blocks in all management areas. The proportion of sablefish QS that is held in blocks, though not insignificant, is small compared to the proportion of blocked halibut QS.

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<sup>10</sup> The small block restriction does not apply to halibut QS in Area 3B. This exception exists because, at the time of the CQE Program’s inception, the area TAC was such that even smaller amounts of Area 3B QS yielded sufficient IFQ pounds to be considered sufficient for a “start-up” or small-operator level. Therefore, restricting CQEs from purchasing the existing small blocks of Area 3B QS would not be furthering the goal of keeping QS available for new or small operations.

**Table 2-5 Blocked and unblocked QS, by vessel category, for the 2013 quota share pool**  
Halibut

Area	Total QS	Unblocked QS	Blocked QS	# Blocks	# Blocks & QS by Category							
					A		B		C		D	
2C	59,536,185	29%	71%	1,435	18	629,796	40	1,402,160	864	31,245,934	513	8,884,225
3A	184,893,008	65%	35%	1,626	20	770,263	119	6,962,200	966	46,147,450	521	11,461,896
3B	54,201,315	54%	46%	588	14	732,648	154	8,097,516	358	14,494,225	62	1,633,338

**Sablefish**

Area	Total QS	Unblocked QS	Blocked QS	# Blocks	# Blocks & QS by Category					
					A		B		C	
SE	66,120,619	85%	15%	284	9	418,486	29	1,182,431	246	8,123,648
WY	53,266,430	87%	13%	186	11	340,341	44	1,935,567	131	4,643,183
CG	111,686,622	92%	8%	253	8	265,670	71	2,481,451	174	5,645,933
WG	36,029,579	80%	20%	122	14	705,790	48	2,952,999	60	3,534,635

Source: NMFS RAM

**Table 2-6 Proportion of total QS blocks by vessel category, 2013**

**Halibut**

Area	% of Total QS Blocks by Category			
	A	B	C	D
2C	1%	3%	60%	36%
3A	1%	7%	59%	32%
3B	2%	26%	61%	11%

**Sablefish**

Area	% of Total QS Blocks by Category		
	A	B	C
SE	3%	10%	87%
WY	6%	24%	70%
CG	3%	28%	69%
WG	11%	39%	49%

For each vessel length category, Table 2-7 shows the amount of QS held in small blocks, and the number of small blocks. The table also shows the total number of small blocks in each area, as well as the proportion of total QS and total blocked QS that those small blocks represent. As with the total number of blocks, more small blocks have been issued in the halibut fishery than in the sablefish fishery. Small block QS makes up between 20% and 40% of all blocked QS in each area. Table 2-8 indicates that the great majority of small blocks are Category C or D QS.

**Table 2-7 Small QS blocks as a proportion of total QS, total blocked QS, and by vessel category, 2013**

**Halibut**

Area	Total Blocked QS	% of Total QS in Small Blocks	% of Blocked QS	# Small Blocks	# Small Blocks & QS by Category							
					A		B		C		D	
2C	42,162,115	26%	36%	963	9	151,533	22	399,863	476	8,720,747	456	5,943,636
3A	65,341,809	13%	37%	1,107	14	270,203	58	1,534,265	563	14,161,745	472	7,886,991
3B	24,957,727	16%	35%	336	3	49,003	49	1,230,349	229	6,189,494	55	1,200,785

**Sablefish**

Area	Total Blocked QS	% of Total QS in Small Blocks	% of Blocked QS	# Small Blocks	# Small Blocks & QS by Category					
					A		B		C	
SE	9,724,565	4%	28%	156	3	63,693	14	337,060	139	2,301,014
WY	6,919,091	5%	40%	122	8	143,026	23	557,997	91	2,034,729
CG	8,393,054	3%	37%	180	5	66,576	47	778,022	128	2,219,549
WG	7,193,424	4%	19%	59	9	257,960	22	558,805	28	536,601

Source: NMFS RAM

**Table 2-8 Proportion of small QS blocks by vessel category, 2013**

Halibut					Sablefish			
Area	Category				Area	Category		
	A	B	C	D		A	B	C
2C	1%	2%	49%	47%	SE	2%	9%	89%
3A	1%	5%	51%	43%	WY	7%	19%	75%
3B	1%	15%	68%	16%	CG	3%	26%	71%
					WG	15%	37%	47%

As a measure to limit the consolidation of affordable QS blocks, the Council placed limits on the total number of blocks that any individual may hold in a single management area. At present, these limits stand at three blocks of halibut QS and two blocks of sablefish QS per area. In addition, an individual that holds any amount of unblocked QS in a management area is only permitted to hold one QS block in that area. Appendix 1 contains a table listing the current number of QS holders in each of the affected CQE communities and the number of QS holders who are not able to purchase additional QS blocks due to this restriction (as of February 2013). Among QS holders who reside in CQE eligible communities, 15% of halibut QS holders (47 of 308) and 25% of sablefish QS holders (12 of 48) are currently at their cap limit on block holdings. By and large, most current QS holders in CQE communities have some capacity to purchase additional blocks. However, one might see the most crucial role of a CQE as being able to provide flexibility in those exceptional cases where a community has only one or two QS holders and they are “capped out” on blocks.<sup>11</sup> Facilitating CQE purchase of small blocks could potentially bring new blocked QS into the community for use by residents, or it could allow the capped out QS holder to unload a small block in order to make room for the purchase of a larger block.

CQEs follow a less stringent standard on block limits. They may hold up to 10 halibut QS blocks and 5 sablefish QS blocks in any management area. The reason for this is that blocked QS is typically of the type (amount, vessel category) that is most attractive to small operators. The purpose of the CQE Program is to keep such QS accessible to community residents in a holding that is flexible and fishable in an economically viable manner. While in theory it might be ideal to maintain QS ownership at the small operator level, thus avoiding lease fees that support CQE administration, fishing small amounts of IFQ on a small boat is not always an economical option.

In order to confine CQEs to the program goal of supporting local fishing operations, CQEs are uniquely limited in *where* they can hold quota. CQEs located in Area 3A and 3B communities are not allowed to purchase QS in Area 2C, while CQEs located in Area 2C are not allowed to purchase QS in Area 3B. Considering both this restriction and the limit on CQE block holdings, a CQE could theoretically hold as many as 20 halibut QS blocks (10 blocks in each of two areas) and 20 sablefish QS blocks (5 blocks in each of 4 areas).

### 2.6.3 CQE Program participation

To date, participation in the CQE Program has been limited with respect to the purpose of allowing communities to purchase halibut and sablefish quota shares in the Gulf and retaining that QS for use by resident fishermen. Two CQEs have purchased quota share thus far, and the program has not come close to reaching the regulatory limits on the amount of QS that may be purchased (these limits are described in

<sup>11</sup> For example, Kake and Elfin Cove have only 1 and 2 resident sablefish QS holders, respectively, and they are each currently at their limit on the number of blocks that they can hold in the SE management area.

Section 2.6.1, Table 2-1 and Table 2-3). 30 of the 46 eligible communities have completed the process to form a CQE and have it approved by NMFS.<sup>12</sup>

Two CQEs have acquired and leased halibut quota. In the years from 2006 to 2011, the CQE representing Old Harbor leased to between 3 and 10 participants who fished CQE quota on between 3 and 5 vessels. Most of the crewmen listed in Old Harbor's most recent annual report reside in Old Harbor (some reside in Kodiak or Port Lions, also CQE communities). The CQE established a rule that no less than 20% of their total IFQ be leased to 'entry level resident fishermen.' This provision still applies in Area 3A, but in 2011 the CQE eliminated the rule for Area 3B as the entry level IFQ in that area was more likely to be unfished as of August 1, at which point unfished quota is contracted out in a 'clean-up' fishery. The CQE for Ouzinkie acquired its first halibut QS in 2011 and leased to 4 community members. Each lessee fished quota on a skiff class vessel (< 35'), and 7 additional community members were employed as crew. Both CQEs leased out quota at a lease rate of 45%, meaning that 45% of gross fishing revenues were paid to the CQE to cover debt service and administrative costs. CQE reports submitted to the Agency note that as debt service decreases in future years, a portion of leasing revenue will be used to acquire additional QS.

The Alaskan communities that are eligible to form CQEs are listed in Table 2-9, and the communities that have already done so are denoted in bold. A map of CQE communities is included in Appendix 1. Some of these communities have invested substantial time and resources in preparing to participate in the program. Previous analyses of the CQE Program, including the 2010 Program Review<sup>13</sup> have identified reasons for the lack of participation, which are broken into two categories: (1) barriers to purchasing QS, and (2) program-related restrictions.

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<sup>12</sup> A list of currently approved CQEs, as of March 1, 2013, can be found at <http://alaskafisheries.noaa.gov/ram/daily/cqenamescontacts.pdf>.

<sup>13</sup> Available at: <http://www.fakr.noaa.gov/npfmc/PDFdocuments/halibut/CQEreport210.pdf>.

**Table 2-9 Eligible CQE communities, population (2010 U.S. Census data)**

	<b>Angoon</b>	459		<b>Akhiok</b>	71
	<b>Coffman Cove</b>	176		<b>Chenega Bay<sup>+</sup></b>	86
	<b>Craig</b>	1,201		<b>Halibut Cove</b>	76
	<b>Edna Bay</b>	42		Karluk	37
	<b>Elfin Cove</b>	20		<b>Larsen Bay</b>	87
	Game Creek	18		<b>Nanwalek</b>	254
	Gustavus	442	<b>AREA</b>	<b>Old Harbor</b>	218
	Hollis	112	<b>3A</b>	<b>Ouzinkie</b>	161
	<b>Hoonah</b>	760		<b>Port Graham</b>	177
	<b>Hydaburg</b>	376		<b>Port Lions</b>	194
<b>AREA 2C</b>	Kake	557		<b>Seldovia</b>	255
	<b>Kasaan</b>	49		Tatitlek	88
	<b>Klawock</b>	755		Tyonek	171
	Metlakatla	1,405		<b>Yakutat</b>	662
	Meyers Chuck <sup>+</sup>	21			
	Naukati Bay	113		Chignik	91
	<b>Pelican</b>	88		<b>Chignik Lagoon</b>	78
	<b>Point Baker</b>	15		Chignik Lake	73
	<b>Port Alexander</b>	52	<b>AREA</b>	Cold Bay	108
	<b>Port Protection</b>	48	<b>3B</b>	Ivanof Bay	7
Tenakee Springs	131		<b>King Cove</b>	938	
<b>Thorne Bay</b>	471		<b>Perryville</b>	113	
<b>Whale Pass</b>	31		<b>Sand Point</b>	976	

<sup>+</sup> 2000 Census data (2010 not available)

Adak (Area 4B) is not affected by this action, so is not listed.

Note: Aggregate population of CQE communities is estimated to have increased 3% from 2010 to 2012

Source: AK Department of Labor & Workforce Development, Research and Analysis Section; U.S. Census Bureau

### 2.6.3.1 Barriers to purchasing QS

This subsection details three important barriers to the purchase of IFQ quota share, particularly as they shape or limit the opportunities for participation by CQEs and individual stakeholders that did not receive initial QS allocations. The key barriers include: (1) availability of QS for purchase, (2) rising market prices for halibut and sablefish QS, and (3) viable options for financing purchase with limited collateral assets and administrative resources. This report examines QS availability in the context of a consolidated fishery, at a time when an increasing proportion of QS transfers may be taking the form of inter-generational gifts from initial issues to a second generation. The discussion of QS price trends is supplemented by an examination of similar trends in product ex-vessel values, which is critical to understanding the potential net benefits of a prospective participant, such as a CQE, taking a financial risk to enter the market. Finally, the discussion of financing options outlines some existing programs, their limitations, and the ways in which current QS price and TAC trends are influencing CQEs' ability to utilize them.

### 2.6.3.2 Quota share availability

The primary obstacles to CQE participation has been the availability of QS on the market and acquiring the funds necessary for community purchase. A transaction that results in a permanent change of ownership is considered a transfer. The number and rate of QS transfers have declined since the inception of the IFQ Program. It is likely that the high volume of QS transfers in the program’s early years was the result of many QS holders receiving initial allocations that were not economically viable to fish, or that a larger operator could fish more profitably. It follows that the volume of transfers would be lower after the IFQ fisheries consolidated through the consummation of these types of transfers. Table 2-10 illustrates the degree of consolidation in halibut and sablefish QS holdings that has occurred over the course of the IFQ Program. Table 2-11 uses the number of resident individuals making QS landings as a metric to describe the outflow of IFQ fishery participation as it particularly relates to the CQE eligible communities. The remote communities in Area 2C are of particular note in this analysis. Only three of 23 CQE communities in Area 2C – Elfin Cove, Gustavus and Klawock – are able to report increased aggregate resident earnings from halibut and sablefish fisheries over the course of the IFQ Program.

**Table 2-10 Consolidation in the number of persons holding QS Halibut**

	1995		2013		% Change in # Persons
	# Persons	QS Units	# Persons	QS Units	
2C	2,371	58,965,237	1,058	59,536,185	-55%
3A	3,041	182,683,910	1,333	184,224,595	-56%
3B	1,039	53,394,413	476	53,840,446	-54%

#### Sablefish

	1995		2013		% Change in # Persons
	# Persons	QS Units	# Persons	QS Units	
SE	706	65,352,762	406	66,120,619	-42%
WY	449	52,597,269	238	53,266,430	-47%
CG	633	107,635,310	373	111,686,622	-41%
WG	226	35,196,842	163	36,029,579	-28%

**Table 2-11 Number of individuals in CQE communities making landings of IFQ halibut and sablefish (combined), 1995 and 2011**

CQE Community Location	# Individuals Making Landings		
	1995	2011	% Change
2C	360	152	-58%
3A	96	72	-25%
3B	65	55	-15%

Note: “Individuals making landings” includes all recorded landings of IFQ derived from QS held by persons reporting business address in a CQE community. The total includes “hired skippers”, so in some instances the number of individuals in a given community with landings may exceed the number of QS holders.

Source: NMFS, 2013. *Report on Holding of IFQ by Residents of Selected GOA Fishing Communities, 1995-2012.*

Table 2-12 provides a snapshot of the QS on the market after initial allocation (1995) and in the most recent year for which NMFS RAM has reported full transfer data (2011). Figure 2-3 and Figure 2-4 illustrate the percentage of the total amount of QS allocated in a given year that was transferred. It is also

worth noting that not all QS exchanges are made on the open transfer market. In addition to cash exchanges, QS may be transferred by trade or by gift. Open market sales, though still the predominant form of transaction, now make up a smaller portion of all transfers. The relative increase in the transfer of QS via gift (see footnote 14) may be an important consideration when thinking about the near-term future of the IFQ and CQE programs. The increase in gifting may be an indication of initial QS recipients passing out of the active fishery. Initial allocation recipients may pass their QS to a relation at no cost, which would provide that second-generation participant with an asset base that helps him or her finance additional QS purchase. This could have a price effect on quota, as is discussed later. Seen in another way, this shift in the method of QS transfer could represent a viable mechanism for CQEs with limited capital resources to acquire QS.

**Table 2-12 QS units transferred, 1995 and 2011**

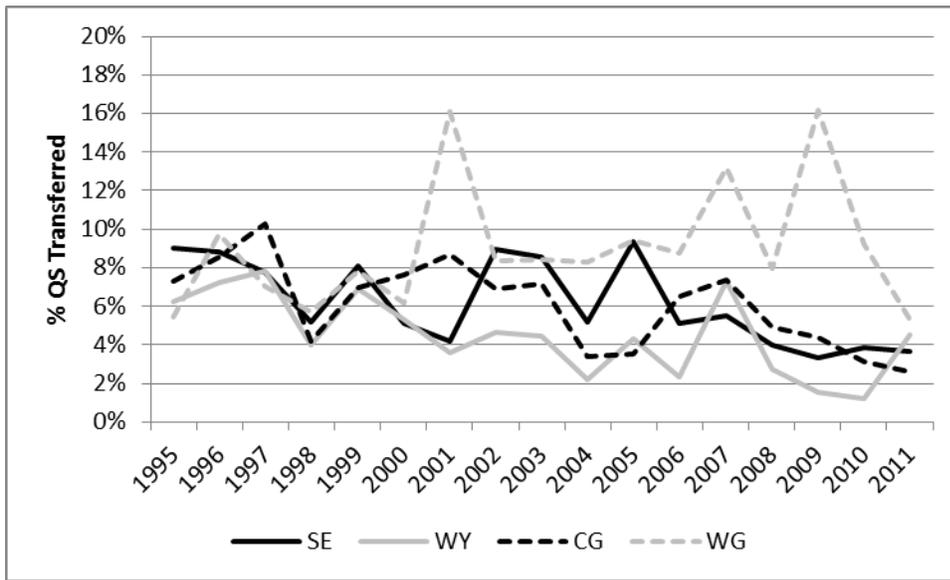
Halibut				Sablefish			
	Total QS (approx.)	1995	2011		Total QS (approx.)	1995	2011
2C	59 million	10,488,537	1,302,243	SE	65 million	5,897,820	2,429,152
3A	184 million	28,557,489	8,430,949	WY	53 million	3,278,470	2,401,878
3B	54 million	7,332,140	2,767,358	CG	110 million	7,833,476	2,912,023
				WG	36 million	1,908,499	1,911,138

**Figure 2-3 Transfer rate for halibut QS, 1995-2011**



<sup>14</sup> For halibut, gifting QS accounted for only 1% to 15% of transfers during the first four years of the IFQ program. That percentage grew to between 20% and 45% in the years since 2003. Sablefish QS has followed a similar, though more erratic, trend towards transfer via gifting. Gifting now accounts for between 15% and 30% of sablefish QS transfers. These figures are variable across management areas, and gifting accounts for a significantly higher percentage of transfers in the Southeast Outside management area. Annual data on types and number of transfers by area are made available by NMFS RAM in *Transfer Reports: Changes Under Alaska's IFQ Program, 1995-2011, Chapter 5*, available at <http://alaskafisheries.noaa.gov/ram/transfers/reports.htm>.

**Figure 2-4 Transfer rate for sablefish QS, 1995-2011**

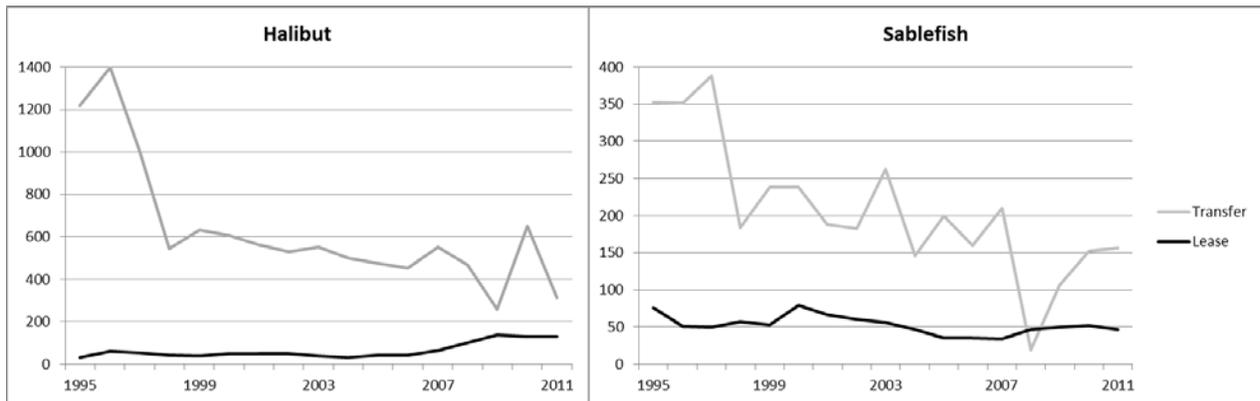


As one might expect, activity on the lease market for catcher vessel QS increased as fishery consolidation ran its course and the number of QS transfers declined during recent years.<sup>15</sup> Figure 2-5 illustrates the increase in lease transactions of annual IFQ in relation to full transfers of QS/IFQ, particularly for halibut quota. Between 33 and 66 halibut IFQ leases per year occurred during the 2000 to 2007 period, while 2008 to 2011 saw between 101 and 136 leases annually. The NMFS RAM Transfer Report<sup>16</sup> indicates that what activity does exist on the lease market for catcher vessel category QS tends to occur in the smaller vessel categories (C and D). Category C and D QS, as noted in Section 2.6.2, account for the majority of blocked QS and, to an even greater extent, QS that is held in small blocks. Data on QS lease prices is insufficient to include in the later discussion of QS access and financing, as only 14% of halibut lease transactions (141 of 1,043) and 35% of sablefish lease transactions (353 of 1,007) were reported between 1995 and 2011.

<sup>15</sup> This analysis does not deal specifically with Category A (“freezer,” or catcher/processor) QS, which has far fewer leasing restrictions. According to CFEC, no Class A vessel has registered with an address in any CQE community, dating back to 1978. Moreover, residents of all 45 of the affected CQE communities, combined, hold only 2 parcels of Category A QS: one small block of halibut QS in Area 2C, and 48,714 sablefish QS units (equating to 5,181 IFQ lbs. in 2013) in the Southeast Outside management area.

<sup>16</sup> *Changes under Alaska’s Halibut (Sablefish) IFQ Program, 1995-2011, Chapter 4.*

**Figure 2-5 IFQ quota share transfer and lease rates, 1995 through 2011**



Source: NMFS RAM, *Pacific Halibut-Sablefish IFQ Report, Fishing Year 2011*. April 2012

### 2.6.3.3 Quota share price, ex-vessel value

While the number of QS units on the transfer market has declined, transfer prices have increased by an amount that is two to three times greater than what would cover general economic inflation over the course of the IFQ program.<sup>17</sup> This real price increase reflects a combination of both reduced supply on the QS market, as described above, and the ex-vessel value of IFQ harvest.<sup>18</sup> For the purpose of this CQE analysis, one should note that rising prices may pose a more significant challenge to prospective buyers who do not already own QS. Participants who already hold debt-free QS, such as initial issues, could potentially finance additional purchases by using their current holdings as an asset. As mentioned above, second-generation participants who receive zero-cost transfers from business partners or relations may also view current QS price levels differently than would a CQE or a new entrant.

Table 2-13 provides a sample of yearly nominal prices for halibut and sablefish IFQ and QS, by management area. A full table of annual transfer price reports, as provided in NMFS RAM's most recent published transfer report summary (1995 through 2011), is included in Appendix 2 (transfer price summary reports do not distinguish between blocked and unblocked parcels of QS).

<sup>17</sup> A rough calculation to compare nominal prices in 1995 and 2011 was made using the U.S. annual average Consumer Price Index, published by the Bureau of Labor Statistics.

<sup>18</sup> To a degree, the unit of transfer (\$/IFQ lbs.) used on the QS transfer market also plays a role in the average annual price of QS transfer. Brokered QS transfers are priced in terms of IFQ lbs., and the relationship between the two units varies from year to year depending on the annual TAC. If a given amount of QS equates to 10,000 IFQ lbs. in one year, but only 5,000 IFQ lbs. in the next year, one could expect the price-per-IFQ lbs. to be higher in the second year. This is because 1 lbs. of IFQ in the second year carries with it more QS units. This effect should always be considered, unless it was clear that no one in the market had any expectation that annual TAC levels would ever increase.

**Table 2-13 Sample average annual transfer price for halibut and sablefish QS (with associated IFQ lbs. in the year of transfer), by management area**

<b>Halibut</b>				<b>Sablefish</b>			
Area	Year	Mean Price (\$/IFQ)	Mean Price (\$/QS)	Area	Year	Mean Price (\$/IFQ)	Mean Price (\$/QS)
2C	1995	7.58	1.14	SE	1995	6.73	1.28
	2000	8.20	1.15		2000	10.57	1.25
	2005	18.06	3.31		2005	11.57	1.38
	2011	32.53	1.27		2011	25.09	2.46
3A	1995	7.37	0.79	WY	1995	5.93	0.92
	2000	7.94	0.79		2000	10.15	0.81
	2005	18.07	2.49		2005	12.47	1.17
	2011	32.31	2.51		2011	25.61	1.85
3B	1995	6.53	0.44	CG	1995	6.02	0.82
	2000	7.84	2.19		2000	9.11	0.82
	2005	13.53	3.27		2005	10.80	1.24
	2011	24.76	3.43		2011	22.83	1.71
				WG	1995	6.16	0.76
					2000	6.49	0.59
					2005	10.70	1.33
					2011	13.34	1.06

Sources: NMFS RAM, Transfer Report Summary: Changes under Alaska’s Halibut (Sablefish) IFQ Program, 1995-2011, Table 3-3 (3-3).

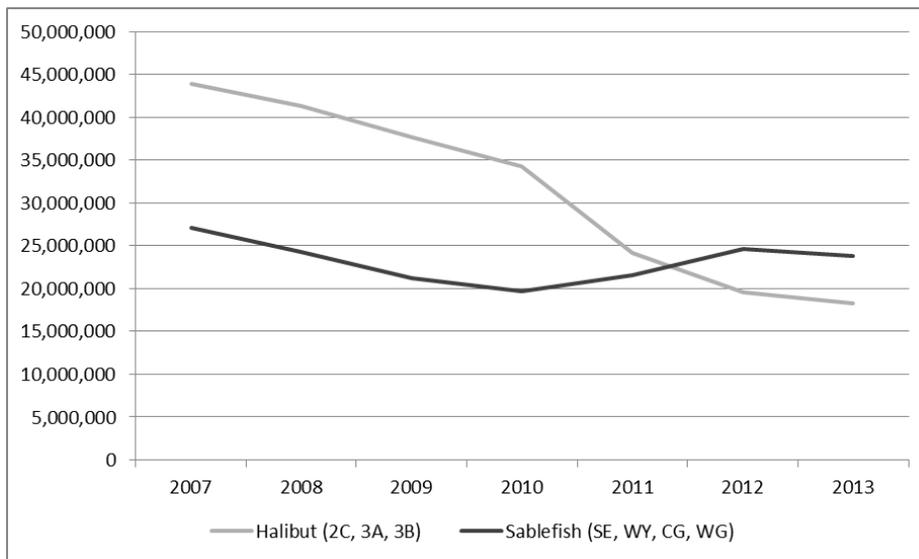
NMFS RAM provided the analyst with preliminary transfer price sample data for 2012. For halibut QS, 2012 \$/IFQ lbs. estimates are similar to those for 2011. Sampled 2012 sablefish prices grew in the Central GOA, but fell in the Southeast and Western GOA management areas (no data were provided for the West Yakutat area). Specific price estimates are not included in this report, as the data are unpublished and the number of transactions used in estimation is low compared to previous years.

To take a rough measure of current transfer prices, the analyst recorded asking prices for parcels of QS listed by public online broker websites at three points during January and February of 2013.<sup>19</sup> Area 2C QS displayed the greatest increase over recent price levels (notably, Area 2C is the only halibut area in this sample where harvest levels have increased since 2011 – see Figure 2-7). In Area 2C, large and small blocks of catcher vessel QS (Categories B, C and D) are on the market at asking prices from \$40 to \$50 per pound. Unblocked QS in Area 2C was listed at \$48 to \$50 per pound, with unmet bids ranging from \$42 to \$45. Area 3A QS are listed between \$30 and \$36 per pound of blocked quota – with smaller blocks listed at the low end – and unblocked quota was listed as high as \$40 per pound. Blocks of Area 3B QS are listed between \$15 and \$25 per pound, while unblocked quota is priced between \$25 and \$30. Sablefish QS was available for approximately \$28 to \$34 per IFQ pound in Southeast, \$30 to \$36 in West Yakutat, \$28 to \$34 in the Central GOA, and \$14 to \$20 in the Western GOA. As with halibut, unblocked sablefish QS is on the market for a higher price.

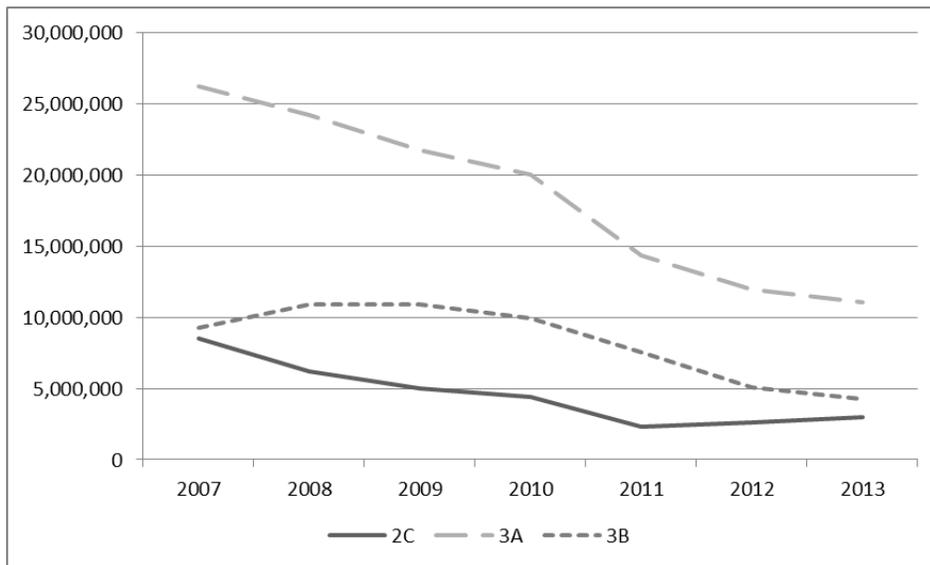
<sup>19</sup> Broker sites sampled: Alaska Boats & Permits; Permit Master; Dock Street Brokers, GISBoat, Alaskan Quota & Permits.

In general, unblocked quota is offered at prices \$2 to \$10 higher per IFQ pound, and it is offered in larger parcels. A recent broker advertisement in *Pacific Fishing* noted that there has been less activity on the QS market for sablefish relative to halibut, but that this could shift as a result of continued reduction in halibut TAC levels.<sup>20</sup> This market sample, though unscientific, reflects a continued price rise on the QS markets, while IFQ TACs – particularly for halibut – remain in decline (Figure 2-6 and Figure 2-7).

**Figure 2-6 Aggregate IFQ total allowable catch (lbs.) for halibut and sablefish in the affected management areas, 2007 to 2013**



**Figure 2-7 IFQ halibut total allowable catch (lbs.) by area, 2007 to 2013**



Ex-vessel values, reported in nominal dollars by the Commercial Fisheries Entry Commission (CFEC), have increased in real dollar value (inflation adjusted) over the duration of the IFQ Program. Ex-vessel value increased at a rate even greater than usual between 2010 and 2011. A 2008 study noted that halibut

<sup>20</sup> <http://www.pacificfishing.com/classifieds.html>, February 2013.

product prices (a proxy for demand) had increased, even when the amount of harvest (supply) increased. In isolation, this would be counterintuitive to basic microeconomic theory. The observed trend likely indicates a combination of the following factors over the course of the IFQ Program: (1) marketing to a wider set of consumers with more aggregate wealth; (2) increasing preference for these specific products; and (3) improved product quality, potentially resulting from the delivery of more fresh fish over the course of a lengthened IFQ fishing season (Langdon 2008; Herrmann & Criddle, 2006). However, increasing gross revenues are not, by themselves, an indicator of increased profitability. Increased dockside prices could reflect a mixture of not only increased demand for halibut and sablefish, but also increased operating costs. In other words, marginal net benefits can still decrease when gross revenues are increasing. Operating costs to consider include the rising price of QS, described above, and fuel, among others. Marine fuel costs in Alaska have risen sharply over the past three years. For Southeast Alaska, the price per gallon increased from \$3.37 in 2010 to \$4.07 in 2012. For the rest of Alaska, from Cordova to Adak, the average price increased from \$3.13 to \$4.10.<sup>21</sup>

#### 2.6.3.4 Financing CQE purchase of quota shares

Community entities and individuals who did not receive an initial QS allocation face substantial front-end investment to enter the IFQ fisheries. Table 2-14 illustrates a set of hypothetical investments and first-year gross revenues on the purchase of 50,000 lbs. of halibut or sablefish in each of the affected management areas, using the most recent published data on QS prices and ex-vessel value (2011). Purchasing 50,000 IFQ lbs. could cost as much as \$1.6 million. An independent study from 2006 used a halibut QS price of \$20/IFQ lbs. and an ex-vessel price of \$3.50 to estimate that “it would take most operators [...] nine years to recoup an investment in quota” (McDowell 2006, p.50). For comparison to Table 2-14, the study’s figures represent an initial investment of \$1 million, and an annual gross revenue return on 50,000 lbs. of \$175,000.<sup>22</sup> Anecdotal reports from groups familiar with QS finance suggest that, depending on loan terms, around 50% of gross revenue would go to debt service, and that current repayment schedules for loans with little or no asset backing are on the order of 15 to 20 years. The 2006 study noted that fish product prices are historically volatile, and the potential for stock decline and reduced TAC levels carries a risk of invested capital in QS losing its value. Relevant to this analysis, the study concluded that IFQ QS is a risky investment for operators without substantial cash reserves, which most often describes CQEs and the residents of remote communities. By comparison, prospective buyers that can borrow against assets could be taking advantage of historically low interest rates for traditional loans; this could be another factor contributing to recently increasing QS prices, as well as another factor to consider when outlining the differences between CQEs/new entrants and parties that already hold QS.

**Table 2-14 Prospective investment and return for 50,000 lbs. of QS, 2011 price levels**

	Halibut			Sablefish			
	2C	3A	3B	SE	WY	CG	WG
\$/IFQ lbs. (2011)	\$32.53	\$32.31	\$24.76	\$25.09	\$25.61	\$22.83	\$13.34
Cost of 50,000 IFQ lbs.	\$1,626,500	\$1,615,500	\$1,238,000	\$1,254,500	\$1,280,500	\$1,141,500	\$667,000
Avg. Ex-Vessel \$/lbs. (2011)	\$6.41	\$6.33	\$6.34	\$5.03	\$5.69	\$6.01	\$7.70
Gross Revenue (annual)	\$320,500	\$316,500	\$317,000	\$251,500	\$284,500	\$300,500	\$385,000

Note: Ex-vessel prices are weighted averages for all commercial fixed gear types (long-line, troll, jig, handline, pot)

Sources: NMFS RAM (\$/IFQ); CFEC, 2012 (ex-vessel)

<sup>21</sup> Reported by Pacific States Marine Fisheries Commission, Economic Fisheries Information Network. Price sample based on the average before-tax cash price of 600 gallons of #2 marine diesel.

<sup>22</sup> The figures in these examples are provided as a point of reference, and not meant as a basis for a true investment feasibility analysis.

One analysis of the financial viability of the CQE Program concluded that it did not appear feasible to purchase quota share at then prevailing prices, particularly with the added overhead necessary to establish and support the CQE organization, unless the cost of capital was very low (McDowell 2005). The administrative cost necessary to both establish a non-profit corporation and manage assets can be significant in a small village. Because the CQE Program represents community-held quota for annual lease to local residents, but not owned by residents, there is a layer of both administrative cost and fiduciary responsibility that has proven a difficulty in accessing currently available funding sources. The administrative overhead for a CQE, which arranges and maintains financing for the QS, negotiates purchases of QS, develops and administers the criteria for distributing IFQ among potential lessees, and submits annual reports to NMFS detailing its activities, constitutes a potential barrier to participation. A more significant problem may be that the profit margin for shares is very low. The price of QS is such that CQEs cannot afford the administrative costs, while leasing the shares at a reasonable rate, and still have funds remaining for debt repayment.<sup>23</sup>

Some CQEs may benefit from the administrative structure and human capital that already exists due to the presence of Alaska Native Corporations. However, Native Corporations are limited in their ability to actively finance QS for two reasons. The Corporations have a primary responsibility to their shareholders, who may not all be IFQ fishermen. Similarly, CQEs must manage their holdings to benefit all community residents equally, and the residents of eligible CQE communities are not necessarily all Corporation shareholders.

In addition to the current price and availability of QS, one of the biggest challenges facing CQEs appears to be the financing terms associated with currently available funding. The lack of low interest, long-term loans and high down payment requirements are cited as primary obstacles. Non-profit organizations that lack credit history pose a greater perceived risk to lenders. Loan guarantee programs, in which more established corporations or the Federal government could guarantee CQE loans, may be necessary to foster community participation.<sup>24</sup> Both Langdon (2008) and several workshops on the CQE Program have cited the need for more favorable loan terms for CQEs, both in a private lending environment, through the State of Alaska's Commercial Fishing Revolving Loan Fund, or through NOAA's Halibut Sablefish Quota Share Loan Program (HSQS).

HSQS is limited to financing the purchase of IFQ by individuals, either those who fish from small vessels or first-time purchases by new entrants, so it would not be available to CQEs under current rules. Loans offered to CQEs by the State of Alaska Division of Economic Development are capped at \$1 million per community and have a maximum duration of 25 years.<sup>25</sup> The State's CQE loans can finance up to 95% of the purchase price, and use the QS being purchased as collateral for the loan. These types of advance loans are critical for providing financing to community organizations that are not already QS holders.

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<sup>23</sup> Partnering with local organizations, when possible, may help fulfill some of the administrative and accounting duties, in order to lower the cost of operating a CQE. In addition, establishing regional CQEs, or having a CQE represent more than one community would consolidate the administrative functions of the CQE and potentially increase efficiencies and lower costs. Only two communities have used this approach (King Cove and Sand Point are represented by one CQE). However, using an 'umbrella' CQE may make it less appealing to a community that wants to play an integral part in a comprehensive economic development strategy that includes participation in the halibut and sablefish fisheries. Moreover, the combination of multiple communities under one CQE could result in a situation where not all partner-communities' interests and objectives can be met at the same time.

<sup>24</sup> Discussion at *Technical Support Workshop and Development Summit for CQEs*, February 17 – 18, 2009, Anchorage, AK.

<sup>25</sup> <http://www.commerce.state.ak.us/ded/fin/cqe.cfml>.

Refer to the *Review of the CQE Program under the Halibut/Sablefish IFQ Program* for more detail on the funding obstacles cited (NPFMC 2010).<sup>26</sup>

Some of the currently organized CQEs have utilized, or explored, private lending. The North Pacific Fisheries Trust (Trust), a non-profit subsidiary of Ecotrust, was formed to provide financing with more flexible terms for CQEs and other entities that have community economic development goals. Pursuing long-term funding relationships with qualified CQEs is a primary component of the Trust's strategy. The down payment for a Trust loan can be as low as 5% of the loan amount, similar to what is now offered by the State's loan program, depending on the risk of the deal. As an organization that utilizes private capital, the Trust is more limited than State and Federal programs in the duration of the loans that it can offer.<sup>27</sup>

Finally, the development of other nascent programs to which CQEs have access may enhance CQEs' ability to provide opportunities in the IFQ fisheries to their residents. Several CQE Program provisions promote continued access for CQEs in the Central and Western GOA Pacific cod fixed gear sector, and provide CQEs with charter halibut permits in Areas 2C and 3A. These programs are discussed in Section 2.6.5. If CQEs can expand their base of capital assets through these no-cost programs, they may be able to leverage those assets to receive more favorable and financially feasible loan terms for the purchase of halibut and sablefish QS.

#### **2.6.3.5 Program-related barriers**

Some of the program restrictions on CQE purchase of QS, described in 2.6.2, act as direct barriers to community participation in the IFQ fisheries. This subsection notes two specific restrictions, and provides some additional information on the amount of QS and number of blocks that are off limits to CQEs under status quo regulation.

The first program related barrier is the issue under consideration for Council action: the prohibition on CQE purchase of small QS blocks. The second restriction that directly affects QS purchase opportunities for CQEs is the prohibition on communities holding Category D halibut QS in Areas 2C. The latter restriction effectively narrows the field of blocked QS that would become available to CQEs if the Council takes action on the first restriction. The Council recently allowed CQEs located in 3A to purchase up to 9.6% of the Category D QS in 3A (1.21 million QS), inclusive of QS in small blocks. This adjustment is not reflected in Table 2-15, since the provision currently applies only to a subset of the potentially affected CQEs. When thinking about how much QS is currently available to Area 3A CQEs in particular, one could add 1.2 million QS units to the total number of QS units available.

In areas where the small block restriction applies – halibut Areas 2C and 3A, and all GOA sablefish management areas – 16.0% of halibut QS and 3.7% of sablefish QS is held in small blocks. In light of the second restriction mentioned above, one should also net out the amount of Areas 2C and 3A Category D halibut QS to calculate the proportion of halibut QS that is currently unavailable to most CQEs, but could become available through this action. Adjusting for the (partially) restricted Category D QS, 11.3% of the halibut QS affected by this action is held in small blocks.

Small blocks account for an even greater proportion of QS when considering only the holdings of CQE community residents. Of the halibut QS held by CQE community residents, 30.4% is in small blocks. Small blocks make up about 67% of Area 2C and 3A Category D halibut QS. Making the same adjustment to net out restricted Category D small block QS, the proportion of potentially affected CQE resident QS that is held in small blocks falls to 20.3%. By comparison, 6.1% of the relevant sablefish QS

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<sup>26</sup>[http://www.fakr.noaa.gov/npfmc/current\\_issues/halibut\\_issues/CQEreport210.pdf](http://www.fakr.noaa.gov/npfmc/current_issues/halibut_issues/CQEreport210.pdf).

<sup>27</sup>Personal communication. Ed Backus, March 5, 2013.

held by CQE community residents is in small blocks. Table 2-15 summarizes the proportion of QS held in small blocks for the areas covered by this action.

**Table 2-15 Amount of halibut and sablefish QS potentially affected by this action, and proportion of that QS that is held in small blocks**

	Total			Held by CQE community residents		
	QS	Small Block QS	%	QS	Small Block QS	%
2C & 3A Halibut QS	244,429,193	39,069,375	16.0%	12,672,187	3,853,689	30.4%
- 2C & 3A Category D Halibut QS	(21,627,891)	(13,830,627)	63.9%	(2,747,775)	(1,837,884)	66.9%
<b>Net Available Halibut QS (2C, 3A)</b>	<b>222,801,302</b>	<b>25,238,748</b>	<b>11.3%</b>	<b>9,924,412</b>	<b>2,015,805</b>	<b>20.3%</b>
<b>Available Sablefish QS (SE, WY, CG, WG)</b>	<b>267,103,250</b>	<b>9,855,032</b>	<b>3.7%</b>	<b>5,722,100</b>	<b>348,891</b>	<b>6.1%</b>

### 2.6.3.6 Transfer price caveats

The data analyzed in this section is useful for understanding general trends in the QS market facing individual and community buyers, but several caveats bear mention. First, NMFS RAM only receives price data on QS transactions that are classified as transfers. Other types of transactions, such as barter or gifting, do not have a consistent measure of exchange value. Moreover, some priced transfers may also include an element of barter or non-monetary consideration in addition to the price paid; this portion of the value exchange is not reflected in the recorded transfer price. According to the RAM Transfer Report, between 20% and 40% of QS transactions take place between parties that self-report some type of family/friend/partner relationship. Second, since 1996, reported transfer prices have been inclusive of broker fees when a broker is used. The proportion of QS transactions involving a broker has varied by year between 45% and 60% over the course of the IFQ program, so there is an undefined additional cost embedded in around half of the transfer prices reported. Third, the IFQ:QS ratio can vary by parcel, even within the same management area. Such variation would be the result of overage/underage compensation attached to a given QS from the previous fishing year.<sup>28</sup> Finally, the value of QS may vary depending on the time of year in which the transfer takes place. A transfer of QS typically carries with it the unfished IFQ lbs. for the current year, so an unfished – or less fished – parcel of QS may have some additional immediate value to the purchaser. NMFS RAM reports transfer prices for QS-only sales (without any current-year IFQ attached), but these transfers are less numerous and are often restricted by confidentiality constraints or characterized by a large sample variance; as such, this analysis does not utilize QS-only transfer prices.

### 2.6.4 Commercial halibut and sablefish IFQ fisheries

The commercial halibut and sablefish fleet is diverse, using various types of longline gear and fishing strategies. The impetus and design of the IFQ Program, implemented in 1995, is discussed in Section 2.6.1. The IFQ program enabled an eligible vessel operator to fish any time between March 17 and November 7, in 2012.

<sup>28</sup> IFQ regulations provide for administrative adjustment of IFQ permits as a result of under- and overfishing the “parent” QS in the prior year. If IFQ pounds remain unfished, a “use it or lose it” provision limits the amount of poundage that may be carried over to the following year. If a person exceeds a permit by a small percentage, the next year the holder of the overfished QS may see a permit account debit. (*Pacific Halibut-Sablefish IFQ Report – Fishing Year 2011*. April 2012)

Harvest from the commercial fishery is monitored by NMFS using a catch accounting system that deducts harvest from an IFQ holder's account. This information is also used to enforce the total annual quota, as well as individual IFQ accounts. Thus, since the IFQ program began, annual harvest limits have not been exceeded by a significant margin. The IFQ program also has an overage/underage provision that balances an IFQ holder's account, year to year. This regulation results in a long-term balance of harvest at the catch limit and allows IFQ holders to move small amounts of IFQ between years.

NMFS RAM estimates the ex-vessel gross value of the IFQ fishery using buyer reports.<sup>29</sup> These estimates are published in the annual Pacific Halibut-Sablefish IFQ Report (Report to the Fleet), which are available through 2011. Table 2-16 shows that the value of the fishery is generally increasing, despite a drop in ex-vessel value in 2009 (which is potentially attributable to general domestic economic conditions). This increase in value has occurred over a time when halibut and, to a lesser extent, sablefish TACs were decreasing.

**Table 2-16 Gross ex-vessel value of the halibut and sablefish IFQ fishery, 2007 through 2011**

Year	Total Ex-Vessel Value (million \$)		
	Halibut	Sablefish	Total
2011	194.4	123.7	318.1
2010	193.7	82.4	276.1
2009	132.5	77.4	209.9
2008	175.5	69.4	244.9
2007	172.2	62.7	234.9

#### 2.6.4.1 Halibut

Total setline constant exploitation yield (CEY) for waters in and off Alaska was about 33.5 million lbs. in 2012, down 18% from the previous year (IPHC 2013). Since 2007, the fishery CEY has ranged from 2.3 million lbs. to 8.5 million lbs. in Area 2C; 11.9 million lbs. to 26.2 million lbs. in Area 3A; and 5.1 million lbs. to 10.9 million lbs. in Area 3B. The TACs for each area have generally declined over this period, with the lowest recent year occurring in either 2011 or 2012 for each area. In 2013, TACs are set to decline further in Areas 3A and 3B, while Area 2C will experience a small increase (Table 2-17). Compared to the area TAC level at the outset of the CQE Program in 2004, 2013 TAC is 72% lower in Area 2C, 56% lower in Area 3A, and 73% lower in Area 3B.

The IPHC reports that decreased catch limits reflect stock biomass declines, as the exceptionally strong 1987 and 1988 year classes pass out of the fishery. Recruitment from the 1999 and 2000 year classes is estimated to be above average, but the lower growth rates of fish in recent years means that these year classes are recruiting to the exploitable stock very slowly (IPHC 2010).

Currently, the catch limit for the commercial longline fishery is set once all other removals are deducted from the available yield. In effect, any increase in non-commercial (sport, personal use) removals results in a reduction of the commercial sector harvest, over an extended period of time. While most sources of non-IFQ halibut removals accounted for by the IPHC have remained relatively constant, the guided sport harvest has been increasing at a rapid rate. Nonetheless, it is the GOA and BSAI groundfish fisheries' halibut Prohibited Species Catch mortality that remains the largest source of such halibut removals.

<sup>29</sup> RAM actually uses a subset of registered buyers (shoreside processors) to estimate gross value. The purpose is explicitly for calculating cost recovery fees. Nevertheless, these estimates are useful to gauge the general overall economic value of the fishery.

**Table 2-17 Commercial halibut catch limits in the Gulf of Alaska, 2002 through 2012 (in millions of pounds)**

Reg. Area	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2C	8.5	8.5	10.5	10.93	10.63	8.51	6.21	5.02	4.4	2.33	2.62	2.97
3A	22.63	22.63	25.06	25.47	25.2	26.2	24.22	21.7	19.99	14.36	11.92	11.03
3B	17.13	17.13	15.6	13.15	10.86	9.22	10.9	10.9	9.9	7.51	5.07	4.29
Total	48.26	48.26	51.16	49.55	46.69	43.93	41.33	37.62	34.29	24.20	19.61	18.29

Source: NMFS RAM Program.

The halibut TACs in each regulatory area of the Gulf are almost fully harvested each year. In 2012, about 97% of the total Gulf allocation was harvested, with 3,660 vessel landings in Areas 2C, 3A, and 3B. Table 2-18 provides a summary of IFQ halibut landings, TAC utilization, and the number of vessel landings for 2010 and 2012.

**Table 2-18 IFQ halibut landings, 2010 and 2012**

Regulatory Area	Total Catch (M lbs.)		% TAC		Vessel Landings	
	2010	2012	2010	2012	2010	2012
2C	4.35	2.53	99%	96%	1,785	1,220
3A	20.09	11.69	101%	98%	2,240	1,818
3B	9.97	4.99	101%	98%	859	622

Source: NMFS RAM

Note: The reports compiled use fixed gear IFQ landings reported by Registered Buyers. At-sea discards are excluded, confiscations included. Halibut weights are reported in net (headed and gutted) pounds. Vessel landings include the number of landings by participating vessels reported by IFQ regulatory area; each landing may include harvest from more than one permit holder.

The 2012 IFQ report to the fleet provides information on the top ports where IFQ landings were made in 2011 (NMFS RAM, 2012). That report indicates that about 50% of the 2011 halibut IFQ was landed in the Central Gulf communities of Homer, Kodiak, and Seward (Table 2-19). These top three ports held the same ranking every year dating back to 2002. Sand Point, an eligible CQE community that has formed a CQE with nearby King Cove, was the fifth ranking IFQ halibut port by 2011 landings. Estimates of annual ex-vessel prices vary by management area. The NMFS IFQ reports show that estimated halibut ex-vessel prices have consistently increased for all areas, excepting in 2009 (Table 2-20).

**Table 2-19 Top 6 IFQ halibut ports for the 2011 fishing year**

Port	2011 Net pounds Landed	2011 Percent of total landed	2011 Rank	2010 Rank	2009 Rank	2008 Rank
Homer	5,602,098	18.91	1	1	1	1
Kodiak	5,556,759	18.76	2	2	2	2
Seward	3,503,326	11.83	3	3	3	3
Dutch/Unalaska	2,759,320	9.31	4	4	4	4
Sand Point	*	*	5	7	10	5
Sitka	1,301,520	4.39	6	5	5	6
<b>All ports</b>	<b>29,623,468</b>	<b>100</b>				

Source: The Pacific Halibut - Sablefish Report, Fishing Year 2011. RAM Program, NMFS. April 2012.

\* Indicates confidential data

**Table 2-20 Halibut estimated ex-vessel dollars/pound prices by management area and year, 1992 through 2011**

Year	Area 2C	Area 3A	Area 3B
1992	1.01	0.96	0.93
1993	1.27	1.21	1.21
1994	2.01	1.91	1.90
1995	2.04	1.99	1.95
1996	2.26	2.24	2.16
1997	2.24	2.16	2.08
1998	1.39	1.36	1.27
1999	1.99	2.09	2.06
2000	2.62	2.60	2.55
2001	2.11	2.03	2.00
2002	2.22	2.23	2.20
2003	2.95	2.89	2.87
2004	3.04	3.04	2.96
2005	3.08	3.07	3.01
2006	3.75	3.78	3.78
2007	4.41	4.40	4.30
2008	4.33	4.40	4.33
2009	3.08	3.12	3.02
2010	4.71	4.69	4.65
2011	6.41	6.33	6.34

Source: NMFS RAM

#### 2.6.4.2 Sablefish

Sablefish catch limits in the GOA have declined by one million to three million pounds, depending on the area, since the CQE Program's beginning in 2004 (Table 2-21). In general, though, IFQ sablefish harvest has been more stable than that of halibut. As with halibut, the GOA management areas of the IFQ sablefish fishery are close to fully harvested in each year (Table 2-22). The sablefish fishery has experienced a modest increase in the number of vessel landings since 2010, which stands in contrast to the continued reduction in halibut landings. This point on landings likely reflects the moderate increase in TAC between 2010 and 2012, as opposed to any reflection of harvest efficiency.

**Table 2-21 Commercial sablefish catch limits in the Gulf of Alaska, 2002 through 2012 (millions of lbs.)**

Reg. Area	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SE	7.08	7.85	8.31	7.87	7.76	7.43	7.10	6.05	5.69	6.48	7.00	7.03
WY	3.71	4.47	4.93	5.01	4.39	4.40	4.09	3.43	3.11	3.84	4.36	3.90
CG	9.58	11.36	12.87	12.79	11.23	10.92	9.70	8.80	7.95	8.36	10.16	9.77
WG	3.95	4.53	5.17	4.48	4.71	4.36	3.33	2.89	2.93	2.86	3.14	3.09
Total	24.31	28.21	31.28	30.15	28.09	27.11	24.22	21.18	19.68	21.54	24.65	23.79

**Table 2-22 IFQ sablefish landings, 2010 and 2012**

Regulatory Area	Total Catch (M lbs.)		% TAC		Vessel Landings	
	2010	2012	2010	2012	2010	2012
<b>SE</b>	5.66	6.88	99%	98%	546	608
<b>WY</b>	3.10	4.24	100%	97%	212	236
<b>CG</b>	7.93	9.76	100%	96%	625	656
<b>WG</b>	2.77	2.81	95%	89%	181	202

The 2012 IFQ report to the fleet indicates that about 30% of the 2011 sablefish IFQ was landed in the Central Gulf communities of Seward and Kodiak (Table 2-23). Yakutat and Sand Point, both eligible CQE communities, have consistently ranked in the top ten ports by sablefish landings. Estimates of annual ex-vessel prices vary by management area. The NMFS IFQ reports show that estimated sablefish ex-vessel prices have risen steadily since 2007. During the course of the CQE program, ex-vessel prices have tended to be lowest in the Southeast Outside district, and highest in the Central and Western GOA (Table 2-24).

**Table 2-23 Top 6 IFQ sablefish ports for the 2011 fishing year**

Port	2011 Net pounds Landed	2011 Percent of total landed	2011 Rank	2010 Rank	2009 Rank	2008 Rank
Seward	4,316,406	17.95	1	1	1	1
Sitka	3,802,599	15.82	2	2	2	2
Kodiak	3,036,117	12.63	3	3	3	4
Yakutat	*	*	4	5	6	5
"Other AK"	1,771,699	7.37	5	4	4	*
Sand Point	*	*	6	9	9	7
<b>All ports</b>	<b>24,041,223</b>	<b>100</b>				

Note: "Other AK" would include all Alaska port except for those listed in the table, including Juneau, Cordova, Dutch/Unalaska, and Akutan.

Source: The Pacific Halibut - Sablefish Report, Fishing Year 2011. RAM Program, NMFS. April 2012.

\* Indicates confidential data

**Table 2-24 Sablefish estimated dollars/pound ex-vessel prices by management area and year, 1992 through 2011**

Year	Southeast	West Yakutat	Central Gulf	Western Gulf
1992	1.93	1.87	1.86	1.90
1993	1.70	1.65	1.63	1.65
1994	2.46	2.23	2.21	2.00
1995	3.18	3.31	3.29	3.21
1996	3.42	3.27	3.24	3.13
1997	3.78	3.76	3.73	3.65
1998	2.49	2.64	2.63	2.41
1999	3.03	2.98	3.00	2.92
2000	3.79	3.73	3.67	3.65
2001	3.23	3.20	3.16	3.14
2002	3.25	3.24	3.17	3.25
2003	3.68	3.67	3.64	3.65
2004	3.26	3.22	3.10	2.99
2005	3.50	3.24	3.19	3.31
2006	3.11	3.53	3.54	3.89
2007	2.62	3.46	3.31	3.84
2008	2.96	3.47	3.67	4.46
2009	3.17	3.78	3.95	4.65
2010	3.74	4.35	4.60	5.73
2011	5.03	5.69	6.01	7.70

## 2.6.5 Other Council actions that include a CQE component

The Council has taken several actions to modify the CQE Program that, while not directly relating to the halibut and sablefish IFQ Program, affect the range of revenue streams available to CQEs. This section describes two such actions that can grant or extend fishing privileges to qualifying CQEs if they choose to participate. The extent to which CQEs have utilized these programs, or to which they might in the future, and their impact on the entities' ability to purchase halibut and sablefish QS is further discussed in Section 2.7.1.3.

### 2.6.5.1 No-cost limited entry charter halibut permits

The first action is the charter halibut limited entry action that the Secretary of Commerce approved in January 2010. This action establishes a limited entry program for charter halibut businesses in Areas 2C and 3A, and issues permits to qualified charter business owners. As part of this action, the Council approved issuing a limited number of permits to each CQE representing a community in Area 2C and Area 3A, upon request and at no cost, if the community meets specific criteria denoting underdeveloped charter halibut ports. The Council intent was to balance the identified need to limit new entry in the charter halibut fishery in the context of exceeded GHs in recent years, with a second stated need to maintain access to the charter halibut fishery in specified rural communities by creating additional permits. More recently, IPHC, NMFS, and the Council have taken several management actions (e.g., one-fish bag limits and threshold retention size limits on halibut; sharp reductions in charter halibut operator permits issued) that can be expected to reduce the size of the existing Area 2C charter fleet, significantly reduce the charter sector's catch of Pacific halibut in Area 2C, and reduce demand for charter halibut trips very substantially in the management area. While constraints on halibut charter

operators and clients in Area 3A are currently less stringent, they, too, have undergone recent regulatory changes to reduce removals to the GHL.

The CQE criteria target communities within which 10 or fewer active charter businesses were operating during the initial qualifying years for the overall program.<sup>30</sup> Each CQE located in Area 2C and Area 3A that meets the criteria can request up to 4 and 7 permits, respectively. The analysis for this action estimates that 18 of the 21 eligible CQE communities in Area 2C<sup>31</sup> would qualify to receive charter permits, and all 14 eligible CQE communities in Area 3A would qualify. Recall, however, that not all of the eligible CQE communities have formed a CQE, which is necessary to participate. There are several provisions established to guide the use of CQE requested charter halibut permits, including that the permit must be used in the community represented by the CQE (i.e., all charter trips must originate or terminate in the CQE community). The Council also recommended an overall limit on the number of charter halibut permits that each CQE can hold and use (inclusive of both purchased permits and permits requested and issued at no cost). The use cap for each CQE in Area 2C is 8 permits; the use cap for each CQE in Area 3A is 14 permits. The use cap applies to all CQEs formed in Area 2C and Area 3A, regardless of whether the community meets the qualification criteria to receive permits at no cost. Of the 23 CQE communities located in Area 2C, 20 are eligible for up to 4 no-cost charter halibut permits, and all 14 CQE communities in Area 3A are eligible for up to 7 no-cost charter halibut permits.

#### **2.6.5.2 Fixed gear Pacific cod endorsements**

The second action is the proposed GOA fixed gear recency action that the Council approved in April 2009 (GOA Am. 86). This action would add non-severable, gear-specific Pacific cod endorsements to fixed gear licenses that qualify under the landings thresholds, effectively limiting entry into the directed Pacific cod fisheries in Federal waters in the Western and Central GOA. Similar to the charter halibut limited entry program, the Council balanced the intent of preventing future entry of latent fixed gear groundfish licenses into the Pacific cod fisheries with retaining opportunities for CQE communities dependent on access to a range of fishery resources. The purpose was to promote community protections at a level that imposes minimal impact on historical catch shares of recent participants.

The CQE component of the action would allow each of the communities eligible under the CQE Program in the Western and Central GOA to request a number of fixed gear and Pacific cod-endorsed licenses equal to the number currently held by residents of the community that are estimated to be removed under the fixed gear recency action, under a 10 metric ton landing threshold or two licenses, whichever is greater.<sup>32</sup> These licenses would be non-transferable and have a specified MLOA of < 60'. CQEs would only be issued licenses for the area of the community they represent (Western GOA or Central GOA). In addition, licenses issued to CQEs located in the Western GOA would be endorsed only for pot gear. CQEs representing communities in the Central GOA would have the option of selecting what proportion of their LLP licenses would have a pot endorsement or a hook-and-line endorsement, provided the CQE

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<sup>30</sup> “Active” is defined as at least 5 bottomfish trips in a year, and the qualifying years specified are 2004 or 2005. “Bottomfish” is used in the criteria, because during the qualifying years, ‘halibut’ effort was not specified to be reported in an ADF&G logbook. At the time, “bottomfish” effort was required to be reported; thus, this was used as an acknowledged “imprecise” proxy for halibut effort in the charter sector in the halibut charter limited entry program action.

<sup>31</sup> The three Area 2C CQE communities that are not estimated to qualify for CQE charter halibut permits are Craig, Elfin Cove, and Gustavus. These communities are estimated to have had more than 10 active charter businesses in 2004 or 2005.

<sup>32</sup> Note that, while the CQE provisions were included in the overall motion on fixed gear recency approved in April 2009, the Council amended the motion with respect to CQE licenses, in December 2009. This action was taken in order to remedy an inconsistency with the Council’s original stated intent of providing the same number of licenses to CQEs that residents of those communities were estimated to lose under the recency action.

notifies NMFS of their choice within six months of the effective date of a final rule. Selection of gear type would be a one-time permanent choice.<sup>33</sup> A total of 27 LLPs endorsed for the Western GOA could be requested by four CQEs located in the Western GOA, and a total of 60 LLPs endorsed for the Central GOA could be requested by sixteen CQEs located in the Central GOA.

## 2.7 Effects of the alternatives

This report uses Table 2-5 through Table 2-8 as the starting point for analyzing Alternatives 1 and 2. These tables describe the 2013 quota share pool, by management area, in terms of how much QS is blocked or unblocked, how much QS is held in small blocks, and how the block or small block holdings are divided among the four vessel length categories (A, B, C, and D). These tables can be summarized in the following general observations:

- A greater proportion of halibut QS is held in blocks (44%) than is sablefish QS (12%);
- Halibut:
  - The proportion of halibut quota that is blocked is much greater in Area 2C (71%) than in Area 3A (35%), though there are more quota blocks in Area 3A (1,626) than in Area 2C (1,435);
  - The greatest proportion of halibut QS blocks is of vessel length Category C (between 35' and 60' LOA), and together Categories C and D make up the vast majority of blocked halibut quota;
  - Roughly one-third of blocked halibut QS is in small blocks, and, for the areas covered in this action, those small blocks are roughly split between Categories C and D (though the small blocks in Category C represent more QS units);
  - **Small blocks make up 26% of Area 2C halibut QS, and 13% of Area 3A halibut QS;**
- Sablefish:
  - The majority of sablefish QS is unblocked;
  - Category C QS (less than 60' LOA) makes up 70% to 90% of the sablefish QS that is blocked, excepting Western GOA QS, which is more evenly distributed between the two catcher vessel QS categories (B and C);
  - Between 20% and 40% of blocked sablefish QS is in small blocks, depending on the area, and the great majority of small blocks are in Category C (again, excepting the Western GOA);
  - While the Central GOA has the smallest proportion of QS held in blocks, it is the sablefish area with the greatest number of blocks and the greatest number of small blocks;
  - **Between 3% and 5% of the sablefish QS in each GOA management area is held in small blocks.**

### 2.7.1 Alternative 1

Alternative 1 is the no action alternative and, thus, would not change the CQE Program within the halibut and sablefish IFQ Program. Alternative 1 would retain current regulations that, in certain areas, prohibit CQEs from purchasing or using QS blocks of less than a given size.<sup>34</sup> CQEs would not be able to purchase small blocks of sablefish QS in any of the GOA regulatory areas, nor would they be able to

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<sup>33</sup> If a CQE did not notify NMFS within this timeframe, NMFS would issue any LLP licenses that are requested by a CQE so that half the LLP licenses issued to the CQE would be endorsed for pot gear and half would be endorsed for hook-and-line gear.

<sup>34</sup> 50 C.F.R 679.41(e)(4) and (5)

purchase small blocks of halibut QS in Areas 2C or 3A. An exception to these rules exists where CQEs located in Area 3A communities can purchase a limited amount of Area 3A Category D QS; the small block restriction would not apply in this special case.

### **2.7.1.1 Maximum potential CQE holdings of halibut QS**

CQEs located in Area 2C are prohibited from purchasing halibut QS in Area 3B, Category D QS in Area 2C (8.95 million QS units), and small blocks of halibut QS in Area 2C and 3A. By these rules, the Area 2C CQEs collectively have potential access to 41.3 million halibut QS units in Area 2C and 161.0 million halibut QS units in Area 3A, meaning that they are precluded by rule from purchasing 17% of the total halibut QS units in those areas.

CQEs located in Area 3A are prohibited from purchasing halibut QS in Area 2C. Area 3A CQEs are not allowed to purchase most small blocks of halibut QS in Area 3A. However, a recent rule does allow them to purchase up to 9.6% of the Area 3A Category D halibut QS pool, and removes the small block restriction for this case; 9.6% of the 3A Category D QS pool equates to about 1.2 million QS units, and equates to about 72,600 IFQ lbs. in 2013. By these rules, the Area 3A CQEs collectively have potential access to 157.5 million halibut QS units in Area 3A and 54.2 million QS units in Area 3B, meaning that they are precluded by rule from purchasing 11% of the total halibut QS units in those areas.

CQEs located in Area 3B are prohibited from purchasing halibut QS in Area 2C, and small blocks of halibut QS in Area 3A. By these rules, the Area 3B CQEs collectively have potential access to 161.0 million QS units in Area 3A and 54.2 million QS units in Area 3B, meaning that they are precluded by rule from purchasing 10% of the total halibut QS units in those areas.

In theory, the CQEs located in each of these areas have access to an amount of halibut QS units that exceeds the cumulative CQE use caps defined in Table 2-3. So, in effect, CQE holdings are actually constrained by the cumulative use cap that limits aggregate CQE QS holdings to no more than 21% of the QS pool in each area. Together, all CQEs may not own more than 12.5 million halibut QS in Area 2C, 38.8 million halibut QS in Area 3A, and 11.4 million halibut QS in Area 3B.<sup>35</sup>

In addition to the cumulative use cap, CQEs are also constrained by the same QS caps that apply to individual holders, listed in Table 2-1. Only CQEs located in Area 2C are permitted to purchase QS in that area. If all 15 of the 23 eligible Area 2C communities that have presently formed CQEs each purchased up to their individual Area 2C QS limit (599,799 QS units), they would collectively hold only 9 million QS units. Only CQEs located in Area 3A or 3B are permitted to purchase QS in Area 3B. In those two areas, 15 of the 22 eligible communities have formed CQEs, and two communities have formed a joint CQE. If these 14 CQEs purchase Area 3B quota (and only Area 3B quota) up to their individual use caps, they would collectively hold 21 million Area 3B QS units. Finally, CQEs located in any area are permitted to purchase Area 3A halibut QS. If the 29 existing CQEs each purchase Area 3A quota (and only Area 3A quota) up to their individual use caps, they would collectively hold 43.6 million Area 3A QS units.

In summary, given the number of currently formed CQEs, maximum community holdings of Areas 3A and 3B halibut QS are potentially constrained by the cumulative use cap, and holdings of Area 2C halibut QS are potentially constrained by individual use caps.

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<sup>35</sup> In the 2013 quota share pool, these aggregate caps are worth 623,571 IFQ lbs. in Area 2C; 2,316,679 IFQ lbs. in Area 3A; and 901,210 IFQ lbs. in Area 3B.

### 2.7.1.2 Maximum potential CQE holdings of sablefish QS

The 29 currently formed CQEs located throughout the GOA are all permitted to purchase sablefish QS for any management area, up to their individual and cumulative use caps (Table 2-1 and Table 2-3). There are no current exceptions to the restriction on CQE purchase of small blocks of sablefish QS. The 2013 sablefish QS pool contains 267.10 million QS units in the Southeast, West Yakutat, Central GOA, and Western GOA management areas; 3.7% of this (9.86 million QS units) is held in small blocks. As such, CQE have access to 257.25 million sablefish QS units. The percentage of total sablefish QS held in small blocks ranges from 2.74% in the Central GOA to 5.14% in West Yakutat.

If each existing CQE purchased sablefish QS up to its individual use cap, the aggregate community holdings would exceed the cumulative limits set out in Table 2-3. So, in effect, CQE sablefish holdings are limited to a total of 56 million QS units throughout the entire GOA, ranging from 7.6 million in the Western GOA to 23.5 million in the Central GOA. This maximum limit of QS holdings would have yielded 4.99 million IFQ lbs. in 2013.

The figures listed above, for both halibut and sablefish, represent maximum limits that are not likely to be reached, given the difficulty of securing financing that CQEs currently report. As a point of reference, the maximum loan amount offered by the State of Alaska Revolving Loan Fund is set at \$1 million. Given the QS transfer prices reported in 2011 (Table 2-13), and anecdotal price reports for 2013, \$1 million would not be enough for a CQE to purchase up to its individual QS use cap in any area.

### 2.7.1.3 Effects on CQEs

If Alternative 1 is selected, it is unlikely that CQEs will significantly increase their level of QS ownership. The status quo alternative would not grant CQEs access to any of the lower-cost QS that they are currently restricted from purchasing – namely, blocks of QS that are smaller than the “sweep-up” size. Absent any change in the landscape of available finance options, the quota market price for the QS available to CQEs is likely to remain too high for them to purchase significant amounts of QS and lease it to community residents.

Table 2-25 describes the proportion of QS blocks that are classified as small blocks and are thus currently restricted from CQE purchase. Having already noted that blocked QS is typically less costly to acquire than unblocked QS, it is useful to understand what proportion of the existing blocks in each vessel category are unavailable to CQEs under the status quo.

**Table 2-25 Proportion of QS blocks that are restricted from CQE purchase under Alternative 1**

Halibut (2C & 3A)	Category			
	A	B	C	D
Blocks	38	149	1830	1034
Small Blocks	23	80	1039	928
<b>% Small Blocks</b>	<b>61%</b>	<b>54%</b>	<b>57%</b>	<b>90%</b>

Sablefish (All GOA)	Category		
	A	B	C
Blocks	42	192	611
Small Blocks	25	106	386
<b>% Small Blocks</b>	<b>60%</b>	<b>55%</b>	<b>63%</b>

Thirty eligible communities have formed CQEs. Two CQEs located in Area 3A currently hold halibut QS. One additional CQE, located in Area 2C, noted in its 2011 report that it was actively seeking funding to acquire IFQ. One active 3A community purchased its first halibut QS in 2011; it currently holds 1 block of Area 3A Category C quota, which was worth around 6,300 IFQ lbs. in 2013. These 106,488 QS units make up 7% of the CQEs maximum potential use cap. The other active community in Area 3A has been leasing out QS since 2006; it currently holds 4 blocks of Area 3B QS, accounting for 10% of its maximum QS use cap. Three of these blocks are technically classified as small blocks of Category C QS, but the small block restriction does not apply in Area 3B. Taken together, the two actively leasing CQEs own 257,722 QS units, worth about 18,300 IFQ lbs. in 2013. The cumulative use caps for CQEs in Areas 3A and 3B are 38.8 million and 11.4 million QS units (2.3 million lbs. and 900,000 lbs.), respectively.

A CQE does not have to report its motivation for purchasing a given type of QS, but it may be the case that the Area 3A CQE targeted Area 3B QS because the cheaper small blocks were unrestricted. Were this the case, one might conclude that Area 3B QS is more desirable or more economically viable for CQEs. This would relatively disadvantage Area 2C CQEs, which are not permitted to purchase Area 3B QS.

Section 2.6.5 described two recent Council actions that may provide CQEs with a base of assets and cash flow at no cost to the CQE. CQEs might generate revenue from leasing charter halibut permits and granting Pacific cod fixed gear endorsements to residents. As participation in these programs develops, CQEs could gradually improve their position – within the status quo framework of the IFQ program – for borrowing funds to purchase unblocked QS or unrestricted QS blocks. According to CQE reports on the 2011 fishing year, nine CQEs in Area 2C had claimed “free” charter halibut permits (4 each); two communities reported on permit lease terms, which ranged from \$500 to \$1,500 for the year. Seven CQEs in Area 3A claimed “free” charter halibut permits (7 each); of the two communities that reported on permit lease terms, one advertised a \$1,000 lease fee, but later waived it, and the other charged a \$1,000 fee and noted an increase to \$2,000 for 2013. As for fixed gear Pacific cod endorsements, the two Area 3B communities that formed a joint CQE each secured 4 “free” LLPs to be used beginning in 2012. Each reported asking a \$5,000 lease payment, and noted that preference will be given first to harvesters who logged at least two Pacific cod deliveries between 2008 and 2011, then to new entrants; they further stipulated that lessees must own a local vessel and fish both the A and B Pacific cod seasons. These programs, even when fully subscribed, look to be generating between \$2,000 and \$20,000 per year, per community. With IFQ halibut transfer prices (per pound) over \$30 and sablefish prices over \$20, it is worth noting that this amount of funds would purchase less than the IFQ required to support one viable fishing trip, although it could be enough to aid a business when added to a lessee’s own small QS holding.

#### **2.7.1.4 Effects on CQE community residents**

The status quo alternative would not alter the set of options available to a QS holder who wishes to cease fishing their quota or otherwise divest himself or herself of the fishery. Individuals may permanently transfer QS and any attached IFQ for compensation (cash or otherwise), they may make a gift of the QS, or they may maintain ownership and lease the QS on an annual basis. Individuals who hold small (“sweep-up”) blocks of sablefish quota or blocks of halibut quota for Areas 2C and 3A may not permanently transfer their QS to any CQE.<sup>36</sup>

Selecting the status quo alternative would not *necessarily* mean that QS will migrate out of CQE communities; however, an individual’s options for transferring QS within their home community are limited by several factors. CQE residents who wish to sell a small block, but keep the QS in their home

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<sup>36</sup> As noted before, a recent rule creates an exception for Area 3A Category D halibut quota. The 14 CQEs located in that area can collectively purchase up to 9.6% of Area 3A Category D halibut quota, which amounts to about 1.2 million QS or, at this writing, 72,000 2013 IFQ lbs.

community, would need to find an individual buyer from among their fellow community residents. Such a buyer would need to have not only the financial and vessel resources required to purchase and utilize QS, but also have room under his/her own individual block holding limit. Appendix 3 lists the number of resident individual QS holders in each CQE community, and the number of those residents who could not currently purchase another block of any size due to their current holdings. Only a few individual QS holders in CQE communities are at their block limit. However, there are several communities with only one or two QS holders and either one or both of them are “capped out” on blocks. In this case, under the status quo, the individual who wishes to sell their small block would be forced to transfer it outside of the community. No data exist to definitively state that the number of resident QS holders looking to sell their quota will increase in the future, but such a shift in market activity could occur as initial allocation recipients reach an age where they wish to reduce their active participation.

Moreover, having a limited pool of potential buyers within one’s own CQE community could constrain an active individual’s ability to upgrade his QS holdings. For example, an individual who is at their individual block limit might wish to sell their smallest, least productive block of QS to make space for a larger IFQ block. Prohibiting CQEs from purchasing this small block limits a resident’s options for upgrading their fishery participation while keeping QS in their remote community. Note that the distribution of QS block holdings may change over time; Appendix 3 represents only a current snapshot. The market of potential QS block buyers could expand or contract in the future as individuals change their block holdings.

If QS prices (Table 2-13) and ex-vessel product prices (Table 2-20 and Table 2-24) continue in an upward trend, it is possible that the distribution of quota holdings among individuals would either remain as is, or consolidate further. The potential for further consolidation depends upon the relationship between the rising market price for QS and net fishing revenues. Selecting the status quo alternative would maintain the pool of potential buyers of small block QS close to its current level; in other words, there would not be an in-flow of up to 45 CQEs seeking to purchase small blocks. However, as described in Section 2.6.3.1, the number of QS buyers in the market is only one of several forces that determine QS transfer prices. Under the status quo, the cost of quota (priced in terms of IFQ pounds) could increase with lower TAC levels or higher ex-vessel prices. If net revenues (operating profits) decrease, due to increased operating costs or other factors, some QS holders may be enticed to sell their quota. As mentioned in Section 2.6.3.1, higher ex-vessel prices do not necessarily generate greater net revenues, and higher costs for inputs like fuel can have a greater effect on small operators’ decision to sell, as these participants tend to function with a more narrow profitability margin. The analyst cannot estimate the likelihood or extent of further consolidation, as it would depend on future QS prices, the future value of participating in the fishery (as determined by future harvest levels), as well as each current QS holder’s personal evaluation of their opportunity cost (e.g., desire to maintain a fishing lifestyle).

Residents of CQE communities who lease QS, such as new entrants or fishermen who received small initial allocations, are likely to pay a higher collective lease rate under the status quo than in a scenario where CQEs increase their QS ownership. The two active CQEs each lease quota to community residents at a 45% rate, meaning that the CQE recovers 45% of the gross fishing revenue. They use these funds to service the debt from purchasing QS, to cover administrative costs, and may use some of it to purchase additional quota in the future. It is not possible to compare this 45% rate to the terms offered in private annual QS leases, since private parties do not submit annual reports on the matter, but it is likely that CQEs are offering favorable lease terms in relation to the market average. If so, CQE community residents who rely on leasing as a means to participate in the IFQ fishery benefit when leasing from the CQE, and stagnant CQE QS ownership under the status quo may constitute a lost opportunity relative to other actions.

### 2.7.1.5 Effects on non-CQE community residents

The effects of this action on non-CQE community residents generally relate to the number of potential buyers and sellers in the market for different types of QS. If the status quo is maintained, participants residing in non-CQE communities would not experience a change in the number of potential buyers for any small block QS that they wish to sell. As buyers, non-CQE community residents would not face any increased competition in the market for available small block QS. If the small block restriction continues to preclude CQEs from purchasing small blocks, those CQEs that *are* able to enter the buying market would necessarily concentrate their acquisition on either unblocked QS, unrestricted QS blocks or, as mentioned in Section 2.7.1.3, on small blocks of Area 3B halibut QS.

If current regulations remain such that CQEs cannot purchase small blocks from their residents, and the number of CQE residents able to acquire new QS remains low, individuals in non-CQE communities would maintain their position as the most viable purchaser of small blocks from individuals who wish to exit the fishery.

### 2.7.2 Alternative 2 (Council preferred alternative)

Alternative 2 would allow CQEs to purchase any size block of quota share from any QS holder, or from a subset of QS holders determined by the location of the holder's residence. Note that other restrictions on CQE purchase of halibut and sablefish QS would still apply if Alternative 2 is selected; these restrictions include use caps (individual and cumulative), location restrictions, the prohibition on CQE purchase of Category D halibut QS in Area 2C, and the prohibition on purchase of Category D halibut QS in Area 3A by CQEs located outside of Area 3A.

Alternative 2:

- Option 1: Allow CQE communities to purchase any size block of halibut and sablefish quota share **(Council preferred alternative)**.
- Option 2: Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of any CQE community.
- Option 3: Allow CQE communities to purchase any size block of halibut and sablefish quota share only from residents of their CQE community.

The Council could choose only one of the considered options. Among the three options, Option 1 would open up the largest pool of small block QS to CQEs. Options 2 and 3 would confine the direct effect of the action to the pool of blocked QS that is held by CQE community residents. The analyst interprets the Council's motion to mean that CQEs could purchase any QS that is held by a CQE community resident *at the time of the transaction*. For Options 2 and 3, this assumption means that the pool of QS available for CQE purchase could grow or shrink as individual CQE community residents hold more or less blocked QS in the future. The Council selected Alternative 2, Option 1 as its preferred alternative in April 2013.

In describing the potential effects of this action, the analyst defines "non-CQE participants" as all QS holders who reside outside of the *eligible* CQE communities, as opposed to the active CQE communities. This, in effect, bends the analysis toward maximum potential impacts in a fishery where CQE participation is much higher than the status quo level. Simply describing the change in the QS pool available to the CQEs that currently hold quota – of which there are only two – would not reflect the Council's intent in this action to enhance opportunities for active CQE participation in the future.

The first subsection of this impact analysis summarizes the number of small QS blocks, the quota units represented, and the QS market value represented<sup>37</sup> that would become available to CQEs under each of the three considered options. The second subsection provides a qualitative description of direct and indirect impacts that might occur as a result of increased small block acquisition by CQEs.

### 2.7.2.1 Additional QS available to CQEs under Alternative 2

#### Options 1 and 2

Table 2-26 and Table 2-27 describe the amount of small block QS in the 2013 quota share pool by management area and vessel size category. The tables provide the number of IFQ pounds represented by the small block QS in each area, as well as the estimated value of that QS according to average transfer prices from NMFS RAM's 2011 report. The left-hand panels in each table capture all small blocks that are currently restricted from QS purchase (those made available under Option 1); the right-hand panels list only QS held by individuals who self-report their residency in one of the 45 eligible CQE communities (those made available under Option 2). Table 2-26 does not report holdings of Area 3B small blocks, as that QS is not restricted from CQE purchase under the status quo.

Alternative 2 (Council preferred alternative) would not alter the location restrictions on CQE purchase of halibut QS. As such, the small blocks of Area 2C halibut would only become available to the 23 eligible communities located in that area – 15 of which have formed CQEs at this time, though none currently owns QS of any type. The Area 2C CQEs would also be permitted to purchase the newly available small blocks of Area 3A QS. There are no location restrictions on sablefish QS in the GOA.

Area 2C CQEs would gain access to the total amounts reported in Table 2-26 and Table 2-27. Area 3A and 3B CQEs would gain access to the Area 3A small block halibut QS in Table 2-26, and the total amount of small block sablefish QS in Table 2-27. (Note that the CQEs located in Area 3A communities are already able to purchase a portion of the Area 3A Category D QS, so the marginal gain in available QS would be greater for CQEs located in Area 3B).

**Table 2-26 Options 1 and 2 – Halibut: Additional small block QS available to CQEs (2013 quota share pool)**

<b>*Option 1*</b>						<b>*Option 2*</b>					
Area	Cat.	# Small Blk	% Cat.	Small Blk QS	% Cat.	Area	Cat.	# Small Blk	% Cat.	Small Blk QS	% Cat.
<b>2C</b>	A	9	1%	151,533	1%	<b>2C</b>	A	1	1%	6,100	0%
	B	22	2%	399,863	3%		B	2	1%	49,696	3%
	C	476	49%	8,721,139	57%		C	56	41%	963,584	53%
	D	(455)	47%	(5,943,636)	47%		D	(76)	56%	(804,268)	44%
	<b>2C Total</b>	<b>962</b>	<b>15,216,171</b>				<b>2C Total</b>	<b>135</b>	<b>1,823,648</b>		
		<b>**2013 IFQ lbs = 758,911</b>		<b>\$ 24,687,384</b>				<b>**2013 IFQ lbs = 90,955</b>		<b>\$ 2,958,767</b>	
<b>3A</b>	A	14	1%	270,203	1%	<b>3A</b>	A	0	0%	0	0%
	B	58	5%	1,534,265	6%		B	0	0%	0	0%
	C	563	51%	14,161,745	59%		C	45	45%	996,425	49%
	D	471	43%	7,886,991	33%		D	55	55%	1,033,616	51%
	<b>3A Total</b>	<b>1,106</b>	<b>23,853,204</b>				<b>3A Total</b>	<b>100</b>	<b>2,030,041</b>		
		<b>**2013 IFQ lbs = 1,423,222</b>		<b>\$ 45,984,310</b>				<b>**2013 IFQ lbs = 121,124</b>		<b>\$ 3,913,520</b>	
<b>Total</b>	<b>2,068</b>	<b>39,069,375</b>			<b>Total</b>	<b>235</b>	<b>3,853,689</b>				
		<b>**2013 IFQ lbs = 2,182,133</b>		<b>\$ 70,671,694</b>				<b>**2013 IFQ lbs = 212,079</b>		<b>\$ 6,872,287</b>	

Note: Category D QS in Area 2C (in parentheses) would not become available for CQE purchase under Alternative 2

<sup>37</sup> According to average transfer prices from 2011, the most recent fully reported year.

**Table 2-27 Options 1 and 2 – Sablefish: Additional small block QS available to CQEs (2013 quota share pool)**

<b>*Option 1*</b>					
Area	Cat.	# Small Blk	% Cat.	Small Blk QS	% Cat.
SE	A	3	2%	63,693	2%
	B	14	9%	337,060	12%
	C	139	89%	2,301,014	85%
SE Total		<b>156</b>		<b>2,701,767</b>	
		<b>**2013 IFQ lbs = 287,361</b>		<b>\$ 7,209,884</b>	
WY	A	8	7%	143,026	5%
	B	23	19%	557,997	20%
	C	91	75%	2,034,729	74%
WY Total		<b>122</b>		<b>2,735,752</b>	
		<b>**2013 IFQ lbs = 200,275</b>		<b>\$ 5,129,034</b>	
CG	A	5	3%	66,576	2%
	B	47	26%	778,022	25%
	C	127	71%	2,219,549	72%
CG Total		<b>179</b>		<b>3,064,147</b>	
		<b>**2013 IFQ lbs = 568,079</b>		<b>\$ 12,969,251</b>	
WG	A	9	15%	257,960	19%
	B	22	37%	558,805	41%
	C	28	47%	536,601	40%
WG Total		<b>59</b>		<b>1,353,366</b>	
		<b>**2013 IFQ lbs = 115,970</b>		<b>\$ 1,547,035</b>	
Total		<b>516</b>		<b>9,855,032</b>	
		<b>**2013 IFQ lbs = 1,171,685</b>		<b>\$ 26,855,204</b>	

<b>*Option 2*</b>					
Area	Cat.	# Small Blk	% Cat.	Small Blk QS	% Cat.
SE	A	0	0%	0	0%
	B	0	0%	0	0%
	C	13	100%	118,580	100%
SE Total		<b>13</b>		<b>118,580</b>	
		<b>**2013 IFQ lbs = 12,612</b>		<b>\$ 316,440</b>	
WY	A	0	0%	0	0%
	B	0	0%	0	0%
	C	4	100%	56,263	100%
WY Total		<b>4</b>		<b>56,263</b>	
		<b>**2013 IFQ lbs = 4,119</b>		<b>\$ 105,483</b>	
CG	A	0	0%	0	0%
	B	1	17%	25,697	19%
	C	5	83%	109,346	81%
CG Total		<b>6</b>		<b>135,043</b>	
		<b>**2013 IFQ lbs = 11,815</b>		<b>\$ 269,732</b>	
WG	A	0	0%	0	0%
	B	1	33%	32,844	84%
	C	2	67%	6,161	16%
WG Total		<b>3</b>		<b>39,005</b>	
		<b>**2013 IFQ lbs = 3,342</b>		<b>\$ 44,587</b>	
Total		<b>26</b>		<b>348,891</b>	
		<b>**2013 IFQ lbs = 31,888</b>		<b>\$ 736,242</b>	

The cumulative use caps on CQE QS ownership (Table 2-3, Section 2.6.1) would not constrain maximum potential purchase of QS by CQEs. The total amount of small block QS in Area 2C is greater than the cumulative CQE use cap for that area (12,502,599 QS units), but CQEs would not gain access to the Category D QS in that area, so the effective amount made available is unconstrained.

The more likely constraint on CQE purchase of newly available QS would be the limit on the number of blocks that a CQE can own in any one area (10 halibut blocks, 5 sablefish blocks). Table 2-28 provides the average number of IFQ pounds per small block as per the 2013 quota share pool and QS:IFQ ratios. Supposing that a CQE purchased only small block QS, which is a reasonable thought experiment considering that unrestricted blocks have proven uneconomical for CQEs up to this point in the program’s history, a CQE would have to purchase up to its block limit to approach a number of 2013 IFQ pounds necessary to support a viable fishing trip (assumed to be around 10,000 pounds of harvest<sup>38</sup>). It is important to note that these averages contain some values that are especially small, so this is not to say that a CQE wishing to increase its participation could not find some combination of small blocks on the market that would allow it to accumulate a fishable amount of quota. Moreover, QS:IFQ ratios may change in the future, so as to make small blocks of QS more productive. Recognizing that this action seeks to provide *opportunities*, the Council may consider whether it is worthwhile to provide CQEs with a tool that expands their options.

<sup>38</sup> The analyst notes that the CQEs that have been active in leasing QS to date have parcels of QS smaller than 10,000 pounds to skiff-class fishing operations. 10,000 pounds is a measure that has been used in other CQE analyses, but this report acknowledges that CQEs and their residents will make their own determinations on what is viable to fish and what constitutes the fulfillment of community goals.

**Table 2-28 Average number of IFQ pounds per small QS block, Option 1 quota share pool & Option 2 quota share pool**

**Halibut**

Area	All QS	CQE QS
2C	789	674
3A	1,287	1,211
3B	2,355	1,742

**Sablefish**

Area	All QS	CQE QS
SE	1,842	970
WY	1,642	1,030
CG	3,174	1,969
WG	1,966	1,114

Option 1 (Council preferred alternative), which allows CQEs to purchase small blocks from any QS holder, would increase the available quota share pool by an amount that is likely greater than what CQEs could expect to finance in the present capital market. Under Option 1, CQEs in Area 2C would gain access to 507 small blocks of Area 2C halibut quota share and 635 blocks of Area 3A halibut quota share, in vessel categories A, B and C.<sup>39</sup> At maximum participation, the 23 eligible communities in 2C could not combine to purchase this number of blocks due to the limit of 10 blocks per CQE in each area. The 14 eligible communities in Area 3A would gain access to 635 blocks of Area 3A halibut QS in Categories A, B and C, as well as some portion of the Category D blocks in that area. The 8 eligible communities in Area 3B would gain access to the same 635 blocks of Area 3A halibut QS, but none of the Category D QS in 3A. Even at maximum CQE participation, block limits and the reservation of Category D QS would prevent CQEs from collectively acquiring all of the small vessel QS that may be crucial to small operators who reside in both CQE and non-CQE communities. The number of small blocks of sablefish QS is smaller, and the 5 block limit for each CQE in each area would not absolutely preclude CQEs from collectively purchasing all available small blocks.

The number of small blocks currently held by CQE community residents, which would become available to CQE purchase under Option 2, is considerably smaller and more concentrated in the smallest vessel class categories. The number of blocks and cumulative amount of QS units made available under Option 2 would not be constrained by block limits or cumulative use caps, though the small blocks in Category D would still be reserved for individuals in the manner described above.

*Option 3*

Option 3 would expand the pool of small block QS available to any given individual CQE by the amount of QS that residents of that specific CQE community hold. This amount varies greatly by CQE community. Table 2-29 provides the number of eligible CQE communities located in each halibut management area, the number of communities in which at least one resident holds halibut or sablefish small block QS, and maximum and minimum values that describe the range of small block holdings among area residents. Most CQEs would gain access to very little newly available QS under Option 3. Perhaps more importantly, Option 3 would not open up any additional halibut QS in 17 of the 45 eligible CQE communities, nor any additional sablefish QS in 31 of the 45 communities.

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<sup>39</sup> Note that Category A (“freezer vessel”) QS may not be attractive to CQEs, as there are no freezer class vessels registered in CQE communities, and only 2 individuals residing in CQE communities hold any Category A QS.

Assuming that all community residents were willing to sell their small blocks to the CQE in their community, and again assuming that 10,000 pounds constitutes a viable fishing trip, seven CQE communities have residents whose pooled small block holdings would support a halibut trip, and one CQE community has residents whose pooled small block holdings would support a sablefish trip.

**Table 2-29 Option 3: Range of small block QS holdings among residents of CQE communities**

		<b>2C</b>	<b>3A</b>	<b>3B</b>
<b>Total # Communities</b>		23	14	8
<b># Communities w. Halibut Small Blocks</b>		16	7	5
Max	# Small Block Holders	26	25	27
	# Small Blocks	36	41	36
	IFQ lbs. (2013)	28,341	58,960	73,480
	Value of QS Holdings (\$)	921,944	1,905,013	1,825,367
Min	# Small Block Holders	1	2	1
	# Small Blocks	1	2	1
	IFQ lbs. (2013)	594	2,048	148
	Value of QS Holdings (\$)	19,317	61,372	3,658
<b># Communities w. Sablefish Small Blocks</b>		9	3	2
Max	# Small Block Holders	6	5	1
	# Small Blocks	6	6	1
	IFQ lbs. (2013)	6,481	10,007	2,814
	Value of QS Holdings (\$)	162,610	223,865	37,544
Min	# Small Block Holders	1	1	1
	# Small Blocks	1	1	1
	IFQ lbs. (2013)	3	9	39
	Value of QS Holdings (\$)	69	219	521

Table 2-30 lists the number of individuals in each CQE community who own halibut or sablefish QS of any kind – blocked or unblocked – as of the 2013 fishing year. Community residents could increase their QS holdings in the future, though this would be reversing the trend of QS ownership distribution that has persisted throughout the duration of the IFQ Program. At present, most of the QS holders in CQE communities own small QS blocks, and small blocks make up a significant portion of these individuals' total fishery access.

**Table 2-30 Number of individual QS holders in CQE communities, 2013**

	Halibut	Sablefish		Halibut	Sablefish	
	<b>Angoon</b>	7	0	<b>Akhiok</b>	0	0
	<b>Coffman Cove</b>	1	0	<b>Chenega Bay</b>	0	0
	<b>Craig</b>	40	10	<b>Halibut Cove</b>	3	1
	<b>Edna Bay</b>	5	0	Karluk	0	0
	<b>Elfin Cove</b>	15	2	<b>Larsen Bay</b>	0	0
	Game Creek	0	0	<b>Nanwalek</b>	0	0
	Gustavus	11	3	<b>AREA Old Harbor</b>	7	0
	Hollis	0	0	<b>3A Ouzinkie</b>	10	0
	<b>Hoonah</b>	21	4	<b>Port Graham</b>	2	0
	<b>Hydaburg</b>	5	1	<b>Port Lions</b>	8	0
<b>AREA 2C</b>	Kake	14	1	<b>Seldovia</b>	15	6
	<b>Kasaan</b>	0	0	Tatitlek	0	0
	<b>Klawock</b>	5	2	Tyonek	0	0
	Metlakatla	7	1	<b>Yakutat</b>	28	1
	Meyers Chuck	1	0	Chignik	2	0
	Naukati Bay	0	0	<b>Chignik Lagoon</b>	4	0
	<b>Pelican</b>	6	3	Chignik Lake	1	0
	<b>Point Baker</b>	5	1	<b>AREA Cold Bay</b>	1	0
	<b>Port Alexander</b>	5	0	<b>3B Ivanof Bay</b>	0	0
	<b>Port Protection</b>	0	0	<b>King Cove</b>	14	1
Tenakee Springs	3	1	<b>Perryville</b>	2	0	
<b>Thorne Bay</b>	5	0	<b>Sand Point</b>	35	3	
<b>Whale Pass</b>	0	0				

Bold denotes that the community has formed a non-profit entity that could carry out the purchase of QS

### 2.7.2.2 Impacts of making small QS blocks available to CQEs

The CQE Program is premised on the concept that communities need the opportunity to hold a perpetual investment in nearby fisheries that have been historically available to resident fishermen, in order to provide long-term benefits to community members. The existing rules that limit CQEs from purchasing the smallest, least costly blocks of QS were intended to prevent community interests from trumping individual interests, especially where CQEs might have used superior access to capital to purchase small vessel QS from individuals outside of their own communities. This possibility has not been realized over the first eight years of the CQE Program. The proposed action implies that, under the status quo, CQEs have not been able to fulfill the role of keeping QS in remote communities when it is no longer desired or economical for an individual community resident to maintain ownership and use of his or her small block holdings.

To date, CQEs have not bought up QS in a manner that threatens small operators' ability to maintain their stake in the fishery. At the same time, small block purchase restrictions may be preventing CQEs from serving their community members, or future community members, who tend to rely on these restricted blocks of mainly small vessel category QS. Making small block QS available for CQE purchase may enhance the community non-profits' ability to keep QS in remote communities, and may provide some operational efficiencies that provide a net benefit to both the CQEs and their community residents. These potential benefits should be weighed against unintended consequences, as well as any potential detriment to fishery participants who live outside of the eligible CQE communities.

This qualitative analysis examines Options 1, 2 and 3 together, as many of the impacts discussed are common across options, though they may vary by degrees according to the size of the marginal increase in QS made newly available to CQEs under each option. The following discussion aims to delineate between effects on CQEs, effects on CQE community residents, and effects on non-CQE community residents within the framework of three impact categories: (1) changes in access to fishery participation; (2) effects on the market for acquiring QS; and (3) economic and social efficiencies and trade-offs associated with community quota ownership.

### **2.7.2.3 Changes in access to fishery participation**

Easing restrictions on CQE purchase of QS would likely provide greater fishing opportunities to the residents of CQE communities, though the extent to which this occurs will be shaped by CQEs' progress in securing the financial support necessary to take advantage of new opportunities. Opening up small block QS to CQEs would directly increase their access to lower-cost quota. It may also be the case that the entry of CQEs into this market will bid up the price of QS for all would be purchasers. This may be a necessary condition for increased CQE participation, as CQEs currently face rising prices in the QS market without the benefit of initially allocated quota for use as an asset base in borrowing. Community non-profits may, under the status quo, also pose a greater lending risk, due to the impact of administrative costs on their net revenues. In addition, some of the government loan programs with the most favorable terms are currently unavailable to community entities (these challenges are more fully discussed in Section 2.6.3.1).

By increasing QS holdings, CQEs would provide fishery access through leasing to community residents who are new entrants to the fishery or who currently fish small quota holdings and wish to increase their participation. Leasing quota from a CQE at favorable terms, compared to market lease fees, may aid new entrants in building up the financial base necessary to purchase individual QS in the future. In this sense, the program does not serve to discourage, but rather could facilitate, individual ownership of QS, although it would do so only on behalf of a resident or residents of a CQE community, excluding all those who do not reside in a CQE-eligible and participating community.

Allowing CQEs access to purchase small block QS could provide a currently lacking tool to keep fishery access in the community as initial allocation recipients voluntarily retire or otherwise reduce their active participation. Under current regulation, a CQE community resident is not able to transfer small block QS to a CQE. As such, the only options available to a retiring resident are to sell or gift the QS to another individual. This set of options does not guarantee that QS will remain in the community, as many of the eligible CQE communities have a small number of individual participants who could acquire and utilize a small block in an economical way, or who are not already at their individual limit on QS block holdings. CQEs' role as a mechanism for keeping QS in remote communities could become more important in the future, if the persistent trends of increasing QS price and increasing operating costs fuel a new round of quota consolidation into the ownership of individuals with superior capital assets. If fishery consolidation were to increase, it is likely that the first QS to shift ownership would be the small holdings of the least marginally profitable small vessel quota – most often the type held in CQE communities.

Rates of QS leasing and gifting have increased in recent years, especially between parties that report a prior personal or familial relationship; this may suggest that there is a desire to shift fishery access from initial quota recipients to other participants. Reduced transfer (full sale) rates may further suggest that there is a low supply of able buyers that could keep the quota in its original community, and it may be the case that CQE community residents who are leasing out QS would be willing to sell to CQEs, if regulations allowed. This potential latent supply of small block QS would likely be in small vessel categories (C and D), which is both the most affordable for CQEs to purchase, and the most applicable to the CQE mission of supporting a local fleet of small operators. Moreover, it could be the case that CQE

community residents will be more willing to self-finance or provide flexible terms when selling to CQEs if they have a personal desire to have the QS remain in their community.

Option 1 (Council preferred alternative) presents the largest opportunity for CQEs and CQE community residents to benefit by increased community quota ownership. However, CQE purchase of “outside shares” is likely constrained by the non-profits’ current difficulty in financing open market transfers. If it is true that CQEs will rely on sellers who are motivated to see the QS remain in the CQE community, then the effective difference in the number of viable transactions available under Option 1 versus under Options 2 or 3 may not be large.

While robust CQE participation may provide additional or enhanced participation opportunities for their stakeholders, some individuals could experience a negative impact if there is more competition on the market for affordable QS. The potential for residents of non-CQE communities to experience reduced available QS is not limited to Option 1, where CQEs could purchase newly available small blocks from the entire set of GOA communities. Under Options 2 and 3, QS held by CQE community residents may be transferred to CQEs whereas, under the status quo, it would more likely have entered the open market. For halibut, selecting Option 1 does not grant CQEs collective access to all small block holdings. CQEs would be precluded from collectively purchasing all small blocks by their combined individual block holdings limits, as well as by special restrictions on community purchase of Category D halibut QS in Areas 2C and 3A. On the other hand, at maximum participation, CQEs in the 45 eligible communities could, theoretically, buy all available small blocks of sablefish QS under Option 1.<sup>40</sup> Under Options 2 or 3, again assuming maximum CQE participation in the QS market, CQEs could, theoretically, acquire all non-Category D small blocks of halibut quota, and all small blocks of sablefish quota. As with the potential benefits of increased CQE participation, the likelihood and magnitude of any negative impact would be determined by the extent to which CQEs can actually secure the funds to compete for QS.

Increased community QS ownership could reduce access to quota for CQE community residents who are looking to purchase individual holdings. Similar to the impact on non-CQE community residents, no individual holder would be forced to sell QS to a CQE, but the increased activity of CQEs in the buying market could limit the available shares, especially if QS sellers demonstrate a preference for selling to CQEs. The effect on individual CQE community residents would be more localized under Options 2 and 3. Again, the maximum potential impact of reduced individual access to sablefish QS is greater than the maximum impact on halibut QS, as some or all small vessel class halibut QS is reserved for individual purchase in Areas 2C and 3A. The reservation of Category D shares may provide an effective compromise, as many of the individual QS holders in CQE communities operate skiff class vessels and CQEs maintain the ability to purchase Category B or C catcher vessel QS and lease it “down” to small vessels when that suits the organization’s goals.

Assessing the net effect of reduced quota availability for individual CQE community residents is more nuanced compared to effects on non-CQE residents. Under the Council’s preference set, as reflected in its problem statement for this action, CQE acquisition of QS that would otherwise have left the community would appear to be a clear net benefit, and one might assume that QS would only *necessarily* leave the community if there were no individual participants within the community willing to make a purchase. QS that is transferred to a CQE, instead of to a willing individual, could constitute a private economic loss to the individual. Shifting QS from individual to community ownership creates a reduction in the economic productivity of QS, as some portion of gross fishing revenues goes to cover CQE administrative costs and debt service. On the other hand, a community member could view CQE acquisition as a public investment in the community’s future. CQE residents may experience broader social and economic benefits if a CQE is successful in its mission to preserve a fishing economy and way of life in their remote community.

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<sup>40</sup> Each CQE could purchase up to 20 blocks of sablefish QS (5 in each of the 4 GOA management areas).

#### 2.7.2.4 Effects on the quota share market

In principle, making small blocks of catcher vessel QS available to CQEs could cause an increase in transfer market prices. This price effect could occur through either of two mechanisms: price competition, and reduced supply of small blocks on the open transfer market.

In a competitive open market, the market clearing price may reach a level where only the best positioned buyer in the market can make the purchase and still derive an economic benefit from the transaction. Competition could increase the market price for small block quota if the new set of prospective buyers under Alternative 2 (Council preferred alternative), CQEs, can afford to pay as much or more for small block QS than the existing marginal buyer. Individual fishermen, including resident fishermen in CQE communities, may experience greater competition in the market for small block QS, which is primarily comprised of QS in the small vessel categories (Categories C and D for halibut, and Category C for sablefish; refer to Table 2-8). This type of demand-driven price effect would impact both CQE and non-CQE community resident who are in the market for QS. However, considering their disadvantaged position as new entrants to the QS market with few financial assets (described fully in Section 2.6.3.1), increased CQE demand for small block QS is believed to be unlikely to have a large impact on prices.

Assuming that CQEs become able to fund small block QS purchases up to their limits on block holdings, one should still consider the overall amount of quota made newly available to CQEs under each of the considered options. Referring back to Table 2-26 and Table 2-27, it is likely that only Option 1 (Council preferred alternative) opens up enough quota blocks to CQEs to potentially have a significant demand-side price impact.

Market prices could also increase if the amount of QS on the open market is reduced. Easing restrictions on CQE purchase of small blocks could reduce the open market supply of small block QS available for transfer, assuming a number of sellers are especially motivated to transfer their quota holdings to community ownership. This supply-side market impact may occur where CQE community residents who are reducing their active participation in the fishery utilize the considered action to keep harvest access in their home community to benefit other small operators or new entrants. The magnitude of this effect is difficult to determine, as one might imagine that those individuals who wish to transfer their QS to CQEs might never have put their small block quota on the open market under the status quo.

A price effect would not be experienced any differently – by individual CQE or non-CQE resident participants – if CQEs were purchasing small blocks on the full open market (as under Option 1) or from sellers in a subset of the market (as they would have to do under Options 2 or 3). The key factor in creating a price effect is the magnitude of the change in either QS demand or supply. In either case, Option 1 seems the most likely of the considered options to have some impact on QS prices.

Overall, this analysis does not provide any strong evidence to predict a large near-term QS price increase that is directly attributable to any of the options considered. First, market demand for QS is only one of several factors that influence reported transfer prices.<sup>41</sup> Second, while the annual number of transfers has been decreasing over the course of the IFQ Program, small vessel category QS remains the highest volume market (in relative terms), so the addition of a new set of prospective buyers would not create as large a demand shock as if a vastly expanded group of bidders were competing for only a few blocks of quota share. Third, the considered action would not directly improve CQEs' ability to secure financing for large amounts of QS acquisition, so a near-term spike in the number of CQE transfers on the open market remains unlikely. Finally, given these financial constraints, the most likely transfers to be consummated

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<sup>41</sup> Other factors include annual QS:IFQ ratios, general economic conditions for securing loan financing, and participants' level of confidence in the future value of the fishery. Refer to Section 2.6.3.1.

by CQEs would be friendly transfers from CQE community residents who have a desire to put their quota in community ownership, and would, under the status quo, be more likely to lease out their quota or move it within their community by a non-monetary transaction as opposed to selling it on the open market.

#### **2.7.2.5 Social and economic aspects of community-held quota**

Increasing CQE quota share holdings will likely bring about both social and economic trade-offs. Social benefits may include increased fishery participation for a specific set of relatively disadvantaged communities, as well as the securing of future harvest opportunities for both new entrants and those participants at the margin of sustained economically viable operation. These social benefits may be localized, by nature, and the CQE Program has been explicit since its outset in acknowledging that it could have distributional impacts.

From an economic perspective, facilitating community QS purchase comes at a cost, but provisions in the CQE Program also offer some operational efficiency that may not be realized when all of the QS in remote communities is held by individuals. In the context of the CQE Program, the topic of economic efficiency should be approached with caution. Economic efficiencies – such as producer surplus, mentioned below in Section 2.7.3 – are best used as a guide for management decisions when the “market” that is subject to analysis is purely open and free. As in many managed fisheries, the halibut and sablefish IFQ Program includes a diverse set of participants facing different barriers to achieving his or her maximum benefit. For example, participants vary in their initial QS allocations, their fishing capital, their access to financial resources, and in their physical proximity to markets and processors. Given these differences, particular stakeholders in the fishery may warrant some type of subsidy; a subsidy could be in the form of an enhanced opportunity for access. Both here and in the following discussion of net benefits, it should be noted that some of the benefits of community quota ownership are not *necessarily* captured in operational efficiencies, but are no less important to the original goals of the CQE Program.

As described above, making small block QS available for CQE purchase could increase the pool of community-held quota that would be secured against moving out of remote, fishery dependent communities under the pressures of price-driven consolidation or resident migration. CQEs would gain an asset that could be leased out to subsequent generations of new entrants as they build up a cash base to acquire individual QS of their own. Up to this point in the CQE program, community non-profits have largely been unable to acquire QS, as the types of quota parcels available to them have proven beyond their financial means as borrowers with few collateral assets. QS held in small blocks, which would become available to CQEs through this action, are typically more affordable and predominately comprised of the small vessel category QS that best fits their constituents’ uses. However, the total quota share pool is generally constant from year to year, so any QS acquired by CQEs must come from individual holdings. Depending on the option selected, CQEs could potentially purchase QS from individuals residing in non-CQE communities. These non-CQE communities would not share, at least directly, in the socioeconomic benefits delivered by CQEs. While all QS transfers are voluntary, and no individual resident would be forced to cede QS to CQEs, some individuals may experience an indirect marginal decrease in their access to quota, compared to the status quo. The magnitude of these distributional impacts would be most directly determined by the extent to which CQEs can address their present limitations in financing QS purchase. This action will grant CQEs access to lower-cost QS, but it is not clear that this reduction in front-end costs will be great enough to generate a significant near-term change from the status quo.

In addition to fishery access in the present year, QS ownership also carries a future value (or risk, depending upon one’s outlook on the future status of fish stocks, product prices, and operating costs). Increased CQE ownership does not affect the future value of the fishery. However, redistribution of individually-held quota to CQEs shifts this future value to the community. Alternatively, CQE residents

who view holding potentially devaluing QS as a risk may perceive some benefit from shifting this future risk to the community. For Option 1, again assuming that any transfer of QS to a CQE is done voluntarily and at a fair market price, the action alternative should not be viewed as a direct detriment to non-CQE residents who sell QS. Any future value that does not accrue to individual CQE or non-CQE residents because the quota transferred to a community ownership could be viewed as an indirect impact; however, this impact is of the sort that the Council has acknowledged in creating the CQE program.

Community QS ownership carries some unique economic benefits and costs that accrue specifically to residents within the CQE's own community. Since the program has not yet achieved high levels of participation, it is not possible to say whether, on the balance, CQEs offer a net operational efficiency that outperforms low volume, individual small vessel quota holdings. In the areas covered by this action, CQEs have the special ability to fish catcher vessel QS "up" in Category. For example, a CQE could lease out Category C QS for use on a vessel that normally requires Category B quota (i.e., a vessel greater than 60' in length). Aggregating small vessel class QS, which is typically cheaper to acquire, onboard larger vessels may generate a greater per unit return than fishing the quota on skiff class vessels. Moreover, increasing the number of medium-to-large vessel trips from CQE communities could increase the number of employment opportunities for local resident crewmen, thereby distributing the economic benefit of CQE QS ownership more broadly within the constituent community. This option has not been sufficiently tested in practice, as CQEs have only purchased a few QS parcels to date. According to the CQEs' annual reports, most of the community-held quota has actually been fished "down," on skiff class vessels. CQE-eligible communities vary in their access to larger deployable vessels, so the opportunity to fish up in class is not equally available to all CQE communities. On aggregate, over half of the currently registered vessels in CQE communities are in the Category D ( $\leq 35'$ ) QS class for halibut. Vessels under 60' (Category C and D for halibut and Category C for sablefish), make up 97% of currently registered CQE community vessels.

In some sense, CQE QS ownership *must* present some special social or economic benefit in order to compensate for its cost. Leasing QS from a CQE is costly when compared to a free initial quota allocation, as CQEs typically require a payment of around 45% of gross fishing revenues to support administrative and debt service costs. However, leasing from a community non-profit entity is likely a favorable alternative to leasing from an initial QS recipient on the open market. Also, CQEs may use leasing revenues to fund the purchase of additional quota in the future, so some may view a portion of lease fees as an investment in future value for the community. At present, given the share of gross revenue required to fish CQE-held QS, it is likely that most lessees lease because they do not own quota or because leasing additional quota at a 55% return still presents a net positive opportunity. As mentioned before, the limited track record of CQE participation does not allow the analyst to assess whether a large-scale shift from individual to community quota ownership would constitute a net economic gain to the residents of CQE communities. In order to make such a determination, one must necessarily await adoption of an expanded CQE program and accumulation of empirical data on performance.

### **2.7.3 Net benefits**

Two general outcomes of the proposed action are possible, each of which could have different net benefit impacts. The first possible outcome is that CQEs would remain restricted from purchasing blocks of quota share that are smaller than the "sweep-up" limits (Table 2-4) in halibut Areas 2C and 3A, and in the Southeast Outside, West Yakutat, Central GOA, and Western GOA sablefish management areas. Net benefits would not change under this outcome, as participation in the market for QS would remain unchanged.

The second scenario is that CQEs would be authorized to purchase any size block of quota share, including small blocks. Within the second scenario, the Council could choose one of three options. These

options stipulate the pool of the sellers from which CQEs could purchase quota share blocks. Option 1 (Council preferred alternative) provides CQE with the broadest potential access to QS blocks, allowing CQEs to purchase small blocks, and from any IFQ QS holder. Option 2 would allow CQEs to purchase small blocks, but only from QS holders who reside in one of the 45 affected eligible CQE communities (Table 2-9). Option 3 would provide CQEs with the narrowest field of access to QS blocks, allowing CQEs to purchase small blocks only from QS holders who reside in the community that the CQE represents.<sup>42</sup>

This analysis considers two possible approaches to assessing the net benefits of the proposed action. The first considers the action's net benefits from a private perspective, considering only the change in production efficiency. This type of analysis would suggest that the action could result in a reduction in producer surplus, as the current distribution of QS likely provides greater net benefits than one through a program that allows a community purchase of QS. In a competitive market with low transaction costs, the least-cost fishing operations would purchase QS and harvest the available halibut and sablefish, all else equal. Thus, under the current market, if small community fishermen are able to harvest fish at a lower cost than the current QS holders, it is reasonable to assume they would purchase QS in the market and enter the fishery. However, the existing data have indicated that this is not the case under the status quo, and was, in fact, part of the reason the CQE Program was established. Due to the size of the vessels used, lack of nearby markets, lack of road access, and, most importantly, the relative distribution of initial QS allocations, small community fishermen do not typically harvest fish at a lower cost than QS holders from larger, less remote communities. Thus, any action, such as the one proposed, that facilitates shifts of QS to these small community fishermen would, all else equal, increase aggregate (harvest) costs in the fishery and decrease net benefits. (However, this may not hold true if access to capital is the primary problem for residents of small, remote communities.) In addition, CQE operations bear added administrative costs; relative to production, administrative costs associated with a CQE are likely to be high, at least in the near-term. Over time, CQE operations may become more efficient as they purchase more shares and gain more experience.

The above analysis does not consider any social welfare value that may be lost in the private market functioning under the IFQ Program. Allowing communities to participate in the market more fully, by allowing them to purchase the small blocks of QS, may introduce social value into the market and change the net benefits of the IFQ fisheries. Under this broader consideration, the net benefits of the action are indeterminate. In the broadest sense, the existence of the CQE Program signifies a policy decision by the Council that there is a social interest in small, remote communities holding quota share for use by residents. Further, this remote community access to fishery participation has been judged to have a "value" that is at least equal to the value of participation by other individual harvesters.

Private, non-CQE community parties could be outcompeted in a market that includes QS holding community entities. A potential cost of the program is that individual fishermen wishing to purchase small QS blocks may face higher market prices due to increased CQE participation in the market. This could result from CQEs being willing to bear higher purchase prices (if they ascribe a higher total socioeconomic value to the QS as it benefits multiple aspects of a broader community); it could result from more potential small block buyers in the open market; or it could result from fewer small blocks of QS entering the open transfer market, as some CQE community residents may preferentially transfer their QS to a CQE. If increased CQE participation forces out individual harvesters who could otherwise have stayed in the fishery and generated greater net revenues than CQEs, total economic efficiency would be reduced. The practical effect of the proposed action largely depends on (1) the ability of CQEs to fund the

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<sup>42</sup> This raises a separate question when, as is the case for one CQE, multiple communities consolidate representation through a single CQE. In the limit, Option 3 could approach the results expected from Option 2, if CQEs merge to represent larger and larger numbers of qualifying communities.

increased opportunity for participation afforded by the action alternative, and (2) the degree to which QS holders residing in CQE communities take active steps to further the shift of QS from individual to community ownership. The magnitude of the effect would be determined by the choice between Options 1, 2, and 3 under Alternative 2. Option 1 (Council preferred alternative) would allow for the greatest potential effect, up to the limitations posed by the financial barriers facing CQEs in the present day economy. The choice of options also shapes the range of potential impacts in each eligible CQE community. Specifically, selecting Option 3 may relatively disadvantage CQE communities in which no QS is currently held. It follows that, if the Council weighs benefits to each community equally, selecting Option 3 may provide a lesser net benefit than the other options, or the same “no net change in benefits” as the status quo option.

In sum, when considering only estimates of private economic net benefits, the proposed action may result in either no change in net benefits or a net reduction in economic benefits, because the intent of the action increases the likelihood that some QS will be redistributed from individuals to CQEs. If CQE lease operations prosecute the fishery less efficiently, net benefits could decrease even further. However, if the action allows CQEs to enter the market by introducing access to affordable QS, the action may generate greater net social value from the IFQ Program than would be realized if the fishery were prosecuted by individual fishermen trading QS on an open market. Larger, non-CQE communities could experience a reduction in general socioeconomic well-being (if their residents sell QS to CQEs); however, it is not possible to determine whether these potential losses would be fully offset by the potential socioeconomic benefit of increased CQE participation, *a priori*.

Based on the analysis and criteria under E.O. 12866, there may likely be some distributional impacts among the various participants affected. Precisely what, when, and how great these structural changes may be is an empirical question.

### **3 INITIAL REGULATORY FLEXIBILITY ANALYSIS**

#### **3.1 Introduction**

This Initial Regulatory Flexibility Analysis (IRFA) addresses the statutory requirements of the Regulatory Flexibility Act (RFA) of 1980, as amended by the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 601-612). This IRFA evaluates the potential adverse economic impacts on small entities directly regulated by the proposed action.

The RFA, first enacted in 1980, was designed to place the burden on the government to review all regulations to ensure that, while accomplishing their intended purposes, they do not unduly inhibit the ability of small entities to compete. The RFA recognizes that the size of a business, unit of government, or nonprofit organization frequently has a bearing on its ability to comply with a federal regulation. Major goals of the RFA are: (1) to increase agency awareness and understanding of the impact of their regulations on small business, (2) to require that agencies communicate and explain their findings to the public, and (3) to encourage agencies to use flexibility and to provide regulatory relief to small entities.

The RFA emphasizes predicting significant adverse economic impacts on small entities as a group distinct from other entities, and on the consideration of alternatives that may minimize adverse economic impacts, while still achieving the stated objective of the action. When an agency publishes a proposed rule, it must either ‘certify’ that the action will not have a significant adverse economic impact on a substantial number of small entities, and support that certification with the ‘factual basis’ upon which the decision is based; or it must prepare and make available for public review an IRFA. When an agency publishes a final rule, it must prepare a Final Regulatory Flexibility Analysis.

In determining the scope, or ‘universe,’ of the entities to be considered in an IRFA, NMFS generally includes only those entities that are directly regulated by the proposed action. If the effects of the rule fall primarily on a distinct segment, or portion thereof, of the industry (e.g., user group, gear type, geographic area), that segment would be considered the universe for the purpose of this analysis.

### **3.2 IRFA requirements**

In order to allow the agency to make a certification decision, or to satisfy the requirements of an IRFA of the preferred alternative, this section addresses the requirements for an IRFA. Under 5 U.S.C., section 603(b) of the RFA, each IRFA is required to contain:

- A description of the reasons why action by the agency is being considered;
- A succinct statement of the objectives of, and the legal basis for, the proposed rule;
- A description of and, where feasible, an estimate of the number of small entities to which the proposed rule will apply (including a profile of the industry divided into industry segments, if appropriate);
- A description of the projected reporting, record keeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record;
- An identification, to the extent practicable, of all relevant federal rules that may duplicate, overlap, or conflict with the proposed rule;
- A description of any significant alternatives to the proposed rule that accomplish the stated objectives of the proposed action, consistent with applicable statutes, and that would minimize any significant economic impact of the proposed rule on small entities. Consistent with the stated objectives of applicable statutes, the analysis shall discuss significant alternatives, such as:
  1. The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities;
  2. The clarification, consolidation, or simplification of compliance and reporting requirements under the rule for such small entities;
  3. The use of performance rather than design standards;
  4. An exemption from coverage of the rule, or any part thereof, for such small entities.

In preparing an IRFA, an agency may provide either a quantifiable or numerical description of the effects of a proposed action (and alternatives to the proposed action), or more general descriptive statements, if quantification is not practicable or reliable.

### **3.3 Definition of a small entity**

The RFA recognizes and defines three kinds of small entities: (1) small businesses, (2) small non-profit organizations, and (3) small government jurisdictions.

Small businesses. Section 601(3) of the RFA defines a ‘small business’ as having the same meaning as ‘small business concern’, which is defined under Section 3 of the Small Business Act (SBA). ‘Small business’ or ‘small business concern’ includes any firm that is independently owned and operated and not dominant in its field of operation. The SBA has further defined a “small business concern” as one “organized for profit, with a place of business located in the United States, and which operates primarily within the United States or which makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor...A small business concern may be in the legal form of an individual proprietorship, partnership, limited liability company, corporation, joint venture, association, trust or cooperative, except that where the firm is a joint venture there can be no more than 49 percent participation by foreign business entities in the joint venture.”

The SBA has established size criteria for all major industry sectors in the United States, including fish harvesting and fish processing businesses. Effective January 5, 2006, a business involved in fish harvesting is a small business if it is independently owned and operated, not dominant in its field of operation (including its affiliates), and if it has combined annual gross receipts not in excess of \$4.0 million for all its affiliated operations worldwide.<sup>43</sup> A seafood processor is a small business if it is independently owned and operated, not dominant in its field of operation, and employs 500 or fewer persons on a full-time, part-time, temporary, or other basis, at all its affiliated operations worldwide. A business involved in both the harvesting and processing of seafood products is a small business if it meets the \$4.0 million criterion for fish harvesting operations. Finally, a wholesale business servicing the fishing industry is a small business if it employs 100 or fewer persons on a full-time, part-time, temporary, or other basis, at all its affiliated operations worldwide.

The SBA has established “principles of affiliation” to determine whether a business concern is “independently owned and operated.” In general, business concerns are affiliates of each other when one concern controls or has the power to control the other, or when a third party controls or has the power to control both. The SBA considers factors such as ownership, management, previous relationships with or ties to another concern, and contractual relationships, in determining whether affiliation exists. Individuals or firms that have identical or substantially identical business or economic interests, such as family members, persons with common investments, or firms that are economically dependent through contractual or other relationships, are treated as one party with such interests aggregated when measuring the size of the concern in question. The SBA counts the receipts or employees of the concern whose size is at issue and those of all its domestic and foreign affiliates, regardless of whether the affiliates are organized for profit, in determining the concern’s size. However, business concerns owned and controlled by Indian Tribes, Alaska Regional or Village Corporations organized pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. 1601), Native Hawaiian Organizations, or Community Development Corporations authorized by 42 U.S.C. 9805 are not considered affiliates of such entities, or with other concerns owned by these entities solely because of their common ownership.

Affiliation may be based on stock ownership when (1) a person is an affiliate of a concern if the person owns or controls, or has the power to control 50 percent or more of its voting stock, or a block of stock which affords control because it is large compared to other outstanding blocks of stock, or (2) if two or more persons each owns, controls or has the power to control less than 50 percent of the voting stock of a concern, with minority holdings that are equal or approximately equal in size, but the aggregate of these minority holdings is large as compared with any other stock holding, each such person is presumed to be an affiliate of the concern.

Affiliation may be based on common management or joint venture arrangements. Affiliation arises where one or more officers, directors, or general partners, controls the board of directors and/or the management of another concern. Parties to a joint venture also may be affiliates. A contractor and subcontractor are treated as joint ventures if the ostensible subcontractor will perform primary and vital requirements of a contract or if the prime contractor is unusually reliant upon the ostensible subcontractor. All requirements of the contract are considered in reviewing such relationship, including contract management, technical responsibilities, and the percentage of subcontracted work.

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<sup>43</sup> Effective January 6, 2006, SBA updated the Gross Annual Receipts thresholds for determining "small entity" status under the RFA. This is a periodic action to account for the impact of economic inflation. The revised threshold for "commercial fishing" operations (which, at present, has been determined by NMFS to include catcher/processors, as well as catcher vessels) changed from \$3.5 million to \$4.0 million in annual gross receipts, from all its economic activities and affiliated operations, worldwide.

Small organizations. The RFA defines “small organizations” as any not-for-profit enterprise that is independently owned and operated, and is not dominant in its field.

Small governmental jurisdictions. The RFA defines “small governmental jurisdictions” as governments of cities, counties, towns, townships, villages, school districts, or special districts with populations of fewer than 50,000.

### **3.4 Reason for considering the proposed action**

The proposed action considers an incremental change to the CQE Program, which targets small, rural, fishing-dependent coastal communities in the Gulf of Alaska.<sup>44</sup> The goal of the CQE Program is to provide for the sustained participation of these communities in the IFQ fisheries. To date, CQEs have been prohibited from purchasing smaller “sweep up” blocks of quota shares, due to concern that CQE purchases could negatively impact the market price of small blocks and their availability to small or entry level fishermen. Noting that these impacts have not been realized during the time since CQE implementation, this action is an attempt to provide CQEs with an opportunity to purchase smaller blocks, and also to provide the residents of CQE communities with an opportunity to sell their small blocks to CQEs.

The Council has identified the following problem statement regarding the affected areas and communities for the proposed action. Further background information and detail on the intent of the proposed action is provided in Section 2.1.

*Responsive to National Standard 8, the North Pacific Fishery Management Council established the Community Quota Entity (CQE) program to encourage sustained participation in the Halibut and Sablefish Quota Share Program by residents of smaller Gulf of Alaska fishery dependent communities. CQEs were prohibited from purchasing smaller “sweep up” blocks of quota shares because of concerns that CQE quota purchases could negatively impact quota share price and availability. Concerns about CQE purchase and market impacts on price and availability have not been realized. Moreover, purchase prohibitions on small “sweep up “ blocks prevent CQEs from buying much of the quota available in CQE communities, and thereby thwart the goals of sustained participation by CQE community residents in the Halibut and Sablefish Quota Share Program.*

*This amendment will further the sustained participation goals of the CQE program by allowing CQE communities to purchase small “sweep up” blocks of quota shares.*

### **3.5 Objectives of the proposed action and its legal basis**

The objective of the alternatives and options described in this analysis is to remove a restriction that prevents CQEs in eligible communities from purchasing small blocks of halibut and sablefish IFQ quota share. This restriction was put in place to prevent potential negative impacts that have not been observed. The purpose of the CQE program is to provide communities with an opportunity to sustain and increase participation in the IFQ fisheries. Stakeholders in the Gulf of Alaska have identified a concern that current regulations prevent residents of eligible CQE communities from voluntarily selling certain parcels of their quota share to CQEs, which, if permitted, could further the CQE Program goals.

The Magnuson-Stevens Fishery Conservation and Management Act provides the legal basis for this proposed action. The 1996 amendments to the Magnuson-Stevens Act (MSA) require that management

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<sup>44</sup> An RFA for the CQE program was completed as part of the analytical package for Gulf of Alaska FMP Amendment 66.

programs take into account the social context of the fisheries, especially the role of communities (§ 301[a][8], 303[a][9]).

### **3.6 Number and description of directly regulated small entities**

All of the directly regulated entities would be considered small entities under the RFA (Section 601(3)). The proposed action would directly regulate 45 community quota entities. The CQEs likely qualify, on their own merits, as small not-for-profit organizations, not dominant in their field. The proposed action intends to directly benefit the set of small communities identified under the CQE Program, each of which qualifies as a small entity (small governmental jurisdictions) under the RFA, since they are governments of towns or villages with populations of fewer than 50,000.

Individual halibut and sablefish QS holders (existing or potential new entrants) have a potential to be directly regulated by this action. Most of these entities would be considered small businesses for RFA purposes; a business involved in fish harvesting is a small business if it is independently owned and operated and not dominant in its field of operation and if it has combined annual receipts not in excess of \$4.0 million for all its affiliated operations worldwide.<sup>45</sup> There are currently 2,565 unique halibut QS holders (1,996 Alaska residents and 569 non-Alaska residents) and 845 unique sablefish QS holders (511 Alaska residents and 334 non-Alaska residents) across all management areas regulated by this action. These entities and any future entrants (the number of which is unknown) could potentially be affected, although not directly regulated, if increased purchase of QS by CQEs upwardly influences the market price for quota in a significant way. Previous sections of this analysis state that this impact has not been observed in the past and is not likely to occur in the future, given the present constraints on CQEs' access to investment capital and the range of other factors that also influence QS prices (refer to Section 2.6.3.1 in the RIR). NMFS considers only those entities that are directly regulated by the proposed action under the IRFA.

The remaining analysis focuses on the 45 communities that comprise the universe of small entities directly regulated by the proposed action. The intent of the proposed action is to allow participating communities (CQEs) to acquire QS and make it available by lease to community residents. Those individual commercial fishing operations that choose to take advantage of the CQE Program would be “directly regulated” small entities. However, their number is unknown at this time. Further, it is expected that any economic impacts of the proposed action on these small entities would be “beneficial”; that is, will have no adverse economic impact whatsoever.

### **3.7 Recordkeeping and reporting requirements**

No additional reporting requirements have been identified.

### **3.8 Federal rules that may duplicate, overlap, or conflict with proposed action**

The analysis did not reveal any other Federal rules that would duplicate, overlap, or conflict with this proposed action.

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<sup>45</sup>The SBA has announced its intention to significantly increase this threshold in the near future. At present, there remain questions on the part of NMFS as to how to apply a new threshold. The Agency and SBA are working to resolve these questions. At present, the official threshold is \$4.0 million in gross annual receipts from all sources, including affiliates, worldwide.

### 3.9 Description of significant alternatives

The significant alternative to the proposed action is the status quo alternative (Alternative 1). This alternative is treated in detail, to the extent practicable, in the RIR (Section 2.7.1). Alternative 1 would not have adverse economic impacts on the small entities directly regulated by this action (the CQEs and resident QS holders in the CQE qualifying communities). On the basis of the analysis in the RIR, the proposed alternative to the status quo (Alternative 2, Council preferred alternative) appears to be the “least burdensome” of the available alternatives for directly regulated small entities, while achieving the objectives of applicable law, as expressed by the Council’s Problem Statement and Purpose and Need declaration.

The analysis did not identify any alternatives, in addition to those contained in this analysis, that would more effectively meet these RFA criteria to minimize adverse economic impacts on directly regulated small entities, while achieving the objectives of the action, under applicable law.

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## 6 APPENDICES

### Appendix 1 Map of eligible CQE communities located in Areas 2C, 3A and 3B



Source: AKFIN

Note: Lower panel encompasses halibut management Area 2C, except for Yakutat which is part of Area 3A

**Appendix 2 Annual prices for halibut and sablefish QS and IFQ transfers by area and year, 1995-2011**

\* According to NMFS RAM, 1999 data are not available due to a “significant database change.”

Halibut

Area	Year	Mean Price \$/IFQ	Total IFQs Transferred (Used for pricing)	Mean Price \$/QS	Total QS Transferred (Used for pricing)	Number of Transactions (Used for pricing)
2C	1995	7.58	996,874	1.14	6,629,554	315
	1996	9.13	681,056	1.37	4,539,813	289
	1997	11.37	517,715	1.92	3,057,477	211
	1998	10.14	220,894	1.79	1,253,771	106
	1999	NA	NA	NA	NA	NA
	2000	8.20	423,347	1.15	3,006,920	95
	2001	9.22	412,990	1.36	2,806,238	100
	2002	8.97	363,474	1.28	2,550,052	84
	2003	9.76	274,537	1.39	1,926,434	93
	2004	13.70	365,513	2.41	2,073,407	93
	2005	18.06	311,907	3.31	1,699,765	72
	2006	18.43	246,540	3.29	1,380,274	77
	2007	19.62	183,297	2.80	1,282,693	76
	2008	25.90	206,440	2.70	1,979,395	96
	2009	20.14	75,636	1.70	897,261	30
	2010	22.71	108,127	1.68	1,463,469	59
	2011	32.53	10,996	1.27	280,971	24
3A	1995	7.37	1,792,912	0.79	16,658,196	355
	1996	8.4	1,582,609	0.90	14,724,748	352
	1997	9.78	1,276,525	1.32	9,443,198	294
	1998	8.55	666,649	1.20	4,743,875	157
	1999	NA	NA	NA	NA	NA
	2000	7.94	614,960	0.79	6,212,009	120
	2001	8.63	771,815	1.02	6,519,428	145
	2002	8.35	711,255	1.02	5,810,732	124
	2003	9.81	565,653	1.20	4,629,364	126
	2004	13.88	875,829	1.88	6,463,336	157
	2005	18.07	385,893	2.49	2,803,054	96
	2006	18.09	586,035	2.46	4,301,567	116
	2007	20.53	814,949	2.91	5,750,520	169
	2008	26.83	498,864	3.51	3,808,709	126
	2009	24.47	244,224	2.87	2,081,104	71
	2010	21.06	218,565	2.28	2,022,792	61
	2011	32.31	236,428	2.51	3,044,435	70
3B	1995	6.53	225,912	0.44	3,323,670	88
	1996	7.88	323,160	0.53	4,760,536	165
	1997	8.58	605,744	1.43	3,634,335	157
	1998	7.92	169,833	1.62	832,225	49
	1999	NA	NA	NA	NA	NA
	2000	7.84	464,711	2.19	1,666,773	44
	2001	8.74	739,936	2.68	2,413,081	49
	2002	7.09	663,248	2.25	2,087,216	42
	2003	8.01	769,927	2.53	2,436,231	46
	2004	11.16	498,167	3.21	1,730,918	42
	2005	13.53	415,646	3.27	1,718,360	27
	2006	14.83	428,693	2.96	2,147,624	42
	2007	16.9	239,317	2.87	1,406,901	29
	2008	25.84	137,505	5.19	685,144	27
	2009	18.01	68,517	3.62	340,731	12
	2010	18.63	126,573	3.40	693,011	19
	2011	24.76	180,672	3.43	1,304,027	21

(Appendix 2 continued)

Sablefish

Area	Year	Mean Price \$/IFQ	Total IFQs Transferred (Used for pricing)	Mean Price \$/QS	Total QS Transferred (Used for pricing)	Number of Transactions (Used for pricing)
Southeast	1995	6.73	714,993	1.28	3,771,994	102
	1996	8.05	460,777	1.21	3,067,913	86
	1997	10.76	303,609	1.31	2,496,791	72
	1998	11.11	102,892	1.29	886,458	31
	1999	NA	NA	NA	NA	NA
	2000	10.57	166,186	1.25	1,400,980	34
	2001	12.22	212,746	1.37	1,896,455	29
	2002	10.23	405,427	1.10	3,783,682	43
	2003	11.00	411,183	1.31	3,464,060	55
	2004	11.69	209,397	1.47	1,666,128	32
	2005	11.57	279,550	1.38	2,348,556	41
	2006	12.18	205,200	1.43	1,749,468	30
	2007	14.65	241,705	1.64	2,154,722	37
	2008	15.64	42,488	1.68	395,728	18
	2009	18.22	51,533	1.67	562,866	17
2010	20.94	21,109	1.80	245,391	9	
2011	25.09	130,007	2.46	1,326,253	20	
W. Yakutat	1995	5.93	208,230	0.92	1,339,123	33
	1996	7.62	240,912	0.88	2,090,726	51
	1997	9.04	182,257	0.85	1,928,688	58
	1998	9.23	22,538	0.83	250,157	17
	1999	NA	NA	NA	NA	NA
	2000	10.15	111,492	0.81	1,402,337	27
	2001	10.01	38,808	0.74	523,760	11
	2002	10.49	143,866	0.73	2,065,214	20
	2003	10.87	79,239	0.91	945,017	20
	2004	12.21	28,031	1.13	303,156	9
	2005	12.47	132,276	1.17	1,408,437	21
	2006	11.48	80,974	0.94	983,166	20
	2007	15.12	192,315	1.25	2,326,792	19
	2008	13.85	28,785	1.06	375,340	15
	2009	17.18	10,483	1.11	162,669	5
2010	22.06	23,502	1.29	402,729	9	
2011	25.61	94,001	1.85	1,302,292	19	

**(Appendix 2 continued)**

C. Gulf	1995	6.02	542,427	0.82	3,979,925	53
	1996	7.06	576,517	0.77	5,312,742	70
	1997	9.36	707,533	0.95	6,950,682	82
	1998	10.68	218,048	1.07	2,176,369	39
	1999	NA	NA	NA	NA	NA
	2000	9.11	448,909	0.82	4,958,461	49
	2001	9.64	124,247	0.82	1,455,795	29
	2002	9.98	251,856	0.86	2,935,443	24
	2003	10.16	470,143	1.03	4,624,442	53
	2004	11.50	207,013	1.33	1,795,496	23
	2005	10.80	304,111	1.24	2,656,281	35
	2006	12.60	472,608	1.27	4,685,401	29
	2007	13.94	364,627	1.36	3,730,291	33
	2008	15.98	240,480	1.39	2,768,837	30
	2009	16.75	71,882	1.32	912,228	14
2010	17.95	90,350	1.28	1,268,608	13	
2011	22.83	104,706	1.71	1,398,595	19	
W. Gulf	1995	6.16	129,351	0.76	1,052,708	12
	1996	5.53	265,044	0.57	2,566,140	11
	1997	7.06	113,032	0.64	1,237,647	30
	1998	8	77,939	0.72	864,090	19
	1999	NA	NA	NA	NA	NA
	2000	6.49	143,154	0.59	1,591,230	19
	2001	7.12	178,679	0.70	1,815,991	19
	2002	5.08	16,789	0.56	153,112	4
	2003	6.85	138,688	0.86	1,102,407	10
	2004	8.19	295,712	1.17	2,061,746	24
	2005	10.70	242,546	1.33	1,950,728	15
	2006	7.87	192,139	1.03	1,470,086	10
	2007	8.18	217,181	0.99	1,796,245	17
	2008	9.5	138,744	0.88	1,499,642	14
	2009	12.11	67,548	0.97	841,404	8
2010	11.08	114,964	0.90	1,414,807	16	
2011	13.34	89,137	1.06	1,124,030	11	

**Appendix 3 Number of QS holders residing in CQE communities who have reached their individual block limit (as of February 2013)**

**Halibut**

Community Location	Community	Area	Total QS Holders	Capped Out on Blocks	
				Yes	No
2C	ANGOON	2C	7	1	6
	COFFMAN COVE	3A	1		1
	CRAIG	2C	40	3	37
	EDNA BAY	2C	5		5
	ELFIN COVE	2C	14	3	11
		3A	3	1	2
		3B	1	1	0
	GUSTAVUS	2C	9		9
		3A	3		3
		3B	2		2
	HOONAH	2C	21	1	20
		3A	3	1	2
	HYDABURG	2C	5		5
	KAKE	2C	14	3	11
	KAWOOCK	2C	3		3
		3A	2		2
	METLAKATLA	2C	7	1	6
	MEYERS CHUCK	2C	1		1
	PELICAN	2C	6		6
		3A	5		5
POINT BAKER	2C	5		5	
PORT ALEXANDER	2C	4		4	
	3A	1		1	
TENAKEE SPRINGS	2C	2		2	
	3A	1	1	0	
THORNE BAY	2C	5		5	
3A	HALIBUT COVE	3A	3	1	2
		3B	1		1
	OLD HARBOR	3A	5		5
		3B	3		3
	OUZINKIE	3A	10		10
	PORT GRAHAM	3A	2		2
	PORT LIONS	3A	7		7
	SELDOVIA	3A	15	7	8
3B		6	1	5	
YAKUTAT	2C	1		1	
	3A	27	6	21	
3B	CHIGNIK	3B	2	1	1
	CHIGNIK LAGOON	3A	1	1	
		3B	3	1	2
	CHIGNIK LAKE	3B	1		1
	COLD BAY	3B	1		1
	KING COVE	3B	13	4	9
	PERRYVILLE	3B	2		2
	SAND POINT	3A	1		1
3B		34	9	25	
<b>Halibut Total</b>			<b>308</b>	<b>47</b>	<b>261</b>

(Appendix 3 continued)

Sablefish

Community Location	Community	Area	Total QS Holders	Capped Out on Blocks	
				Yes	No
2C	CRAIG	SE	10	1	9
	ELFIN COVE	SE	2	2	0
	GUSTAVUS	SE	2	1	1
		WY	1		1
		WG	1		1
	HOONAH	SE	4	2	2
		WY	1	1	0
	HYDABURG	SE	1		1
	KAKE	SE	1	1	0
	KLAWOCK	SE	1		1
		CG	1		1
	METLAKATLA	SE	1		1
	PELICAN	SE	3	1	2
WY		1	1	0	
CG		1		1	
POINT BAKER	SE	1		1	
TENAKEE SPRINGS	CG	1		1	
3A	HALIBUT COVE	CG	1		1
	SELDOVIA	SE	1		1
		WY	1		1
		CG	5	2	3
		WG	2		2
YAKUTAT	SE	1		1	
3B	KING COVE	WG	1		1
	SAND POINT	SE	1		1
		WG	2		2
<b>Sablefish Total</b>			<b>48</b>	<b>12</b>	<b>36</b>