An Overview of Options for Restructuring Alaska Salmon Fisheries

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“Restructuring”

Any change in the rules affecting how, where, when and by whom salmon are harvested.
Examples of Restructuring Options

- Permit stacking
- Permit retirements
- Permit buybacks
- Harvester Co-ops
- Individual Fishing Allocations
- Community Development Quotas
- Changes in fishing gear
Why are we talking about restructuring?

- The Alaska salmon industry is facing severe economic challenges.
- Restructuring may be one way to address these challenges, by providing a way to lower costs and/or increase value.
Restructuring isn’t the only strategy.
We can also work to:

- Lower costs by improving transportation infrastructure
- Raise value by handling fish better
- Raise value with more and better marketing
- Raise value with new and different products
This workshop is focusing specifically on restructuring.

• There is a lot of interest in restructuring.
• If we try to talk about all other potential strategies at the same time, we won’t get very far.
• We are planning future workshops on other strategies for the salmon industry, such as marketing.
The goal of the workshop is stimulate discussion about different restructuring options and their potential implications.

- We are not advocating for or against restructuring.
- We are not advocating for or against particular approaches to restructuring.
Some starting premises for thinking about restructuring

• Each salmon fishery is different
• There are no one-size-fits-all solutions
• Restructuring has many different potential effects which should be thought about carefully.
• Restructuring affects different people in different ways
• Any restructuring option is likely to involve difficult tradeoffs.
• There are no easy answers
Potential Goals of Restructuring

• Lower costs of fishing and processing
• Increase value of catch and production
• Increase permit values
• Help people who want to get out of the fishery
• Increase local benefits of the fishery

Different people have different goals!
Every restructuring option raises lots of questions.
Every restructuring option raises lots of questions . . .

**How would it affect permit holders?**

- How would it affect the amount of boats and gear fishing?
- How would it affect the amount of time spent fishing?
- How would it affect how people fish?
- How would it affect permit holders’ overall costs?
- How would it affect individual permit holders’ catches?
- How would it affect fish prices?
- How would it affect the value of catches?
- How would it affect permit holders’ net profits?
- How would it affect permit values?
- How do all of these effects vary for different kinds of fishermen?
Every restructuring option raises lots of questions . . .

How would it affect other fishery participants?

• How would it affect crew?
• How would it affect tender operators?
• How would it affect processors?
• How would it affect young people who want to get into the fishery?
Every restructuring option raises lots of questions . . .

**How would it affect communities?**

• How would it affect participation in the fishery by community residents?
• How would it affect permit ownership by community residents?
• How would it affect processing in the community?
• How would it affect other businesses in the community that depend on the fishery?
• How would it affect whether people move in or out of the community?
• Would it create new social stresses by creating winners and losers in the community?
Every restructuring option raises lots of questions . . .

How would it affect our ability to manage the fishery?

• How would it affect managers’ ability to achieve biological/escapement goals?
• Can it be enforced?
• How would it affect costs of management?
Every restructuring option raises lots of questions . . .

Is it legal? Is it constitutional?

• Is it legal under current State law?
• Does it meet the requirements of the Alaska constitution for “equal protection” and management of fisheries for “common use”?
• Who would have the authority to make it happen?
Every restructuring option raises lots of questions . . .

**Is it politically viable?**

- Do permit holders in the fishery want it?
- Will other areas accept it?
- Will the general public accept it?
- Is the state or federal government willing to fund it?
The fundamental choice in restructuring:

Keep a competitive system

or

Change to an allocation-based system
Our current management system is competitive*.

- A limited entry permit gives you an opportunity to fish.
- You are competing with other permit holders for the available fish.
- How much fish you catch depends on how effectively you compete.

*Except in Chignik
Advantages of a competitive management system

- Fishermen are used to a competitive system.
- Managers are used to a competitive system.
- Processors are used to a competitive system.
- Competing for fish allows the hardest working fishermen to get ahead.
- Fishermen enjoy competing.
- Competition is “the American way”.
Disadvantages of a competitive management system

• Racing for fish tends to increase costs
• Racing for fish tends to lower quality and value
• If a fishery is profitable, fishermen tend to keep investing more and more in boats and gear to try to catch a larger share—which increases costs without increasing value. (Economists call this “capital stuffing.”) So over time a competitive fishery becomes less and less profitable.
• It’s difficult to innovate, because everyone has to use the same gear in order to make the competition for fish fair.
Advantages of an allocation-based management system

• Without a race for fish, harvesters can slow down and focus on reducing costs and improving quality.
  – Harvesters can combine operations
• Without a race for fish, managers can be more flexible in what type of gear they allow.
  – Harvesters don’t necessarily all have to use the same gear
• Managers have greater control over fishing because they can limit allocations for particular time periods
Disadvantages of an allocation-based management system

• Deciding who gets what allocation is very difficult.
  – No matter how you allocate, someone will think the allocation is unfair.

• Managing for and enforcing allocations is difficult.
  – It may only be practical to allocate to large groups, thus requiring fishermen to work together and give up their independence.

• Changing from a competitive system to an allocation-based system has far-reaching effects likely to result in controversy.
Restructuring Options: Five Broad Categories

- Keep the system the same.
- Competitive system with the same number of permits
- Competitive system with fewer permits
- Allocation-based system with the same gear
- Allocation-based system with different gear
Keeping the System the Same

• The current system does provide a way of adjusting to changing conditions.
• As a fishery becomes unprofitable, people drop out of the fishery, leaving more and more permits unfished.
• The remaining boats are able to catch more fish and operate more efficiently and remain profitable—up to a point.
• But:
  – This is tough on the people forced out of the fishery!
  – If conditions improve, unfished permits come back in.
Unfished or “latent” permits represent a major challenge in restructuring

- Anything that is done to improve the profitability of the fishery will tend to bring unfished permits back to share in the benefits of the fishery.
- This will tend to reduce the benefits of restructuring for those fishermen who are still fishing.
Options Keeping a Competitive System with the Same Number of Permits

Divide Permit Holders into Groups

• CONCEPT: Divide permit holders into groups. Allow different groups to fish different openings, balancing openings so that groups have equal opportunities.

• RATIONALE: Allows savings on fuel because each boat fishes fewer openings (but theoretically can catch the same number of fish)

• VARIATION: Allow permit holders who combine operations to fish openings for each group.

• ISSUES:
  – Hard for managers to balance fishing opportunities fairly between openings
  – Permit holders and crew waste time while sitting around waiting for opportunities to fish.
Options Keeping a Competitive System with the Same Number of Permits

Permit Stacking

• CONCEPT: Allow permit holders to combine operations, with gear proportional to the number of permits

• RATIONALE: Allows savings because fewer boats fish the same amount of gear

• VARIATIONS:
  – Reduce amount of gear for permit holders who fish alone, providing an incentive for permit holders to combine operations and reducing total costs because less gear is fished

• ISSUES: Hard on people who don’t want to fish together
Options Keeping a Competitive System with the Same Number of Permits

Fractional Permits

• CONCEPT: Allow permit holders to buy or sell fractions of a permit. Phase in requirement for holding more than 1 permit (e.g. 1.2 permits, 1.5 permits, etc.) to participate in a fishery.

• RATIONALE: Allows savings because the number of boats declines.

• ISSUES: Imposes additional costs on fishermen who want to continue fishing.

• NOTE: Fractional permits are in effect a fisherman-financed buyout—without an administrative bureaucracy. They are flexible—you can reduce or increase gear by changing the permit fraction required.
Options Keeping a Competitive System with Fewer Permits

Permit Reductions

• **CONCEPT:** Some permit holders are “bought out” or “retired” from the fishery, reducing the total number of permits

• **RATIONALE:** Allows savings because fewer boats are catching the same number of fish.

• **ISSUES:**
  – Who pays for the buyback?
  – Who gets bought out?
  – How much do they get paid?
  – And many other issues . . .
Options Keeping a Competitive System with Fewer Permits

Permit Reductions Design Issue:
How do we remove permits from the fishery?

<table>
<thead>
<tr>
<th>Some Potential Answers</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buybacks--Pay permit holders to give up their permits</td>
<td>Buybacks cost more, but allow for a quicker adjustment to a different number of permits</td>
</tr>
<tr>
<td>Retire permits as people default on loans</td>
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<tr>
<td>Ban permit transfers and retire permits which aren't fished</td>
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</table>
Options Keeping a Competitive System with Fewer Permits

Permit Reductions Design Issue:
Who pays for permit buybacks?

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<thead>
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<tbody>
<tr>
<td>Federal government</td>
<td>The more they can get someone else to pay for a buyback program, the more the remaining permit holders will benefit.</td>
</tr>
<tr>
<td>State government</td>
<td></td>
</tr>
<tr>
<td>The remaining permit holders</td>
<td></td>
</tr>
<tr>
<td>Federal or state loans paid back by remaining permit holders</td>
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</table>

Both the State and the Federal Government have buyback programs which provide for loans to buy our permits—to be paid back by the remaining permit holders. However, it *may* be possible to get the federal government to fund buybacks.
**Options Keeping a Competitive System with Fewer Permits**

**Permit Reductions Design Issue:**
Which permits get bought out, and for how much?

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<tr>
<td>We offer a fixed price for permits and buy all permits offered for sale at that price</td>
<td>If the buyout is voluntary, then what we offer to pay will affect how many permits get bought out. The less we are willing to pay for a buyout, the less capacity (in terms of ability to catch fish) we will remove from the fishery. Buying out permits which aren't being fished won't have any short-term benefit (but may provide benefits if economic conditions improve or we also restructure the fishery in other ways).</td>
</tr>
<tr>
<td>We accept closed bids for permits and buy back those permit holders who are willing to sell for the lowest price.</td>
<td></td>
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<tr>
<td>We offer people different prices based on their recent catch history.</td>
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<tr>
<td>The buyout program has a right of first refusal on all permit sales and permits are bought out as permit holders retire.</td>
<td></td>
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</table>
Options involving an Allocation-Based System with the Same Gear

Allocation-Based Systems: Coops, IFQs, CDQs

• CONCEPT: Shares of some or all of the entire harvest are allocated to groups or individuals.

• RATIONALE:
  – Allows cost savings because without a race for fish allocation-holders can focus on catching fish efficiently
  – Allows increase in value because without a race for fish allocation-holders can focus on quality and developing markets

• ISSUES:
  – Who gets the allocations ??????
  – And many other issues . . .
Options involving an Allocation-Based System with the Same Gear

Allocation-Based Systems Design Issues: How much of the fishery is allocated?

<table>
<thead>
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<tbody>
<tr>
<td>Less than 100%--part of the fishery remains competitive</td>
<td>Restructuring may be easier if participation in the allocation-based fishery is optional and permit holders can continue to fish competitively if they wish to. But having two systems may make it more difficult to manage the fishery, and it may be difficult to design a system which is fair to permit holders in both fisheries.</td>
</tr>
<tr>
<td>100% is allocated</td>
<td></td>
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</tbody>
</table>
**Options involving an Allocation-Based System with the Same Gear**

**Allocation-Based Systems Design Issues:**
Are allocations to groups or individuals?

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<tr>
<td>One group only</td>
<td>The smaller the number of allocations, the easier it is for managers to achieve and enforce allocation targets, but the harder it is to form and administer groups</td>
</tr>
<tr>
<td>Two or more groups</td>
<td></td>
</tr>
<tr>
<td>Individuals who must fish in groups of a minimum size</td>
<td></td>
</tr>
<tr>
<td>Individuals who may fish individually or in groups</td>
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</tbody>
</table>
### Options involving an Allocation-Based System with the Same Gear

#### Allocation-Based Systems Design Issues:
Who receives the allocations?

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<tr>
<td>Permit holders, based on equal shares</td>
<td>Who receives the allocations, and how much (if anything) they pay for them is critically important in determining who will benefit from the restructuring and the fishery.</td>
</tr>
<tr>
<td>Permit holders, based on catch history</td>
<td></td>
</tr>
<tr>
<td>Communities</td>
<td></td>
</tr>
<tr>
<td>Auctioned to the highest bidder (like oil leases or timber sales)</td>
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</tr>
<tr>
<td>Permit holders receive allocations based on equal shares or catch history for a limited period of time, with a transition to allocations based on another method such as to communities or by auction</td>
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</table>
Options involving an Allocation-Based System with the Same Gear

Allocation-Based Systems Design Issues:
What do groups or individuals pay for allocations?

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<tr>
<td>Allocations are given away for free.</td>
<td>The more allocation-based restructuring benefits a fishery by increasing its profitability, and the greater the extent to which it reduces the number of people actually participating in the fishery, the greater the extent to which other Alaskans are likely to demand a share in the profits.</td>
</tr>
<tr>
<td>Allocation holders pay a tax or royalty in return for allocations</td>
<td></td>
</tr>
<tr>
<td>Allocations are auctioned to the highest bidder (like oil leases or timber sales)</td>
<td></td>
</tr>
<tr>
<td>Communities sell allocations (like CDQ groups)</td>
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Options involving an Allocation-Based System with the Same Gear

Allocation-Based Systems Design Issues:
What restrictions are placed on groups or individuals as to where they sell fish?

<table>
<thead>
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<tbody>
<tr>
<td>None</td>
<td>Allocations to harvesters significantly increase their market power and options. The fewer restrictions, the greater the potential for market benefits to allocation holders. But historical processors and processing communities may be harmed if allocation holders choose new markets.</td>
</tr>
<tr>
<td>Required to sell part of catch to historical buyers</td>
<td></td>
</tr>
<tr>
<td>Required to sell part of catch to historical buyers for a transitional period only</td>
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</table>
Options involving an Allocation-Based System with Gear Changes

Allocation-Based Systems with Gear Changes

• CONCEPT: In addition to allocating harvest shares, groups are allowed to fish with new kinds of gear
• RATIONALE:
  – Allows additional cost savings
  – Allows additional quality
• ISSUES:
  – New kinds of gear may pose new challenges for managers
  – New kinds of gear may result in even more significant social effects, such as loss of employment
Conclusions

• There are many different options for restructuring ranging from small changes to big changes.
• There are many different variations on restructuring options such as buy-backs and co-ops.
• The devil is in the details. The details of how you go about restructuring are critical in determining who will be affected and how.
• Restructuring has far-reaching implications, and some choices are very hard to reverse.
• We should be thinking carefully about different restructuring options so that we’re able to change if we want to but we understand what we’re doing.