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REAUTHORIZATION OF THE MAGNUSON-STEVENS FISHERY CONSERVATION AND MANAGEMENT ACT

OVERSIGHT HEARING

BEFORE THE

SUBCOMMITTEE ON FISHERIES CONSERVATION, WILDLIFE AND OCEANS

OF THE

COMMITTEE ON RESOURCES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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CAPACITY REDUCTION PROGRAMS, FEDERAL INVESTMENTS IN FISHERIES AND THE REAUTHORIZATION OF THE MAGNUSON-STEVENS FISHERY CONSERVATION AND MANAGEMENT ACT

Thursday, May 10, 2001
U.S. House of Representatives
Subcommittee on Fisheries Conservation, Wildlife and Oceans
Committee on Resources
Washington, DC

The Subcommittee met, pursuant to notice, at 9:40 a.m. in Room 1324, Longworth House Office Building, Hon. Wayne Gilchrest [Chairman of the Subcommittee] presiding.

STATEMENT OF THE HONORABLE WAYNE GILCHREST, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. GILCHREST. Good morning, everyone. The Subcommittee on Oceans, Fish and Wildlife and a myriad of other things will come to order.

I would like to welcome our witnesses to the second of what I hope will be a number of hearings on the important topic of reauthorization of the Magnuson-Stevens Fishery Conservation and Management Act.

This hearing will focus on two interesting issues of fisheries management. The first is the issue of Federal investments in the fishing industry. These were well-intentioned programs intended to help the domestic fishing industry at the time they were created but it may be time for Congress to take another look at them.

To further this discussion, Congress asked the National Marine Fisheries Service to report back on the levels of Federal investments in the fishing industry and how these investment programs have affected capacity in our fishing. I think this report has helped spark a debate about whether these programs are still effective and/or whether they have encouraged overcapacity in some of our domestic fisheries. I think this debate is healthy and I suspect today's hearing will continue the debate.

The second issue is that of capacity reduction or buyback programs. The General Accounting Office reports that since 1976 the Federal Government has created and funded a number of programs

to reduce the capacity in several of our fisheries. In addition, a number of proposals for additional buyouts are either on the drawing board or have already been presented to the Federal Government for consideration.

As the Federal Government moves forward with new buyout programs, we need to review the previous programs to see how we can make any future buyouts more effective. I think the report also points out that there may be a number of different goals for buyout programs and any new program should be designed to achieve those goals.

While I know there may be a temptation this morning to talk extensively about IFQs, individual fishing quotas, I hope we can leave that for a future hearing and certainly for future meetings in our offices. I understand some of you have mentioned IFQs in the context of capacity reduction options and that certainly will be another piece of this incredibly complex puzzle and we will not take the Magnuson Act in isolation, whether it is buyouts or IFQs or whatever aspect of the act is going to help manage the fisheries, but take them all in context and then spread them across the web of management.

But this morning I am not telling you you cannot mention IFQs as a management tool because it will be a significant part of our discussion on how to manage the fisheries and the independence of each management council but this morning I hope to focus this hearing on the history and the effectiveness of Federal buyouts and how we can improve the current authorization, which is found in Section 312 of the Magnuson-Stevens Act.

[The prepared statement of Mr. Gilchrest follows:]

Statement of The Honorable Wayne Gilchrest, Chairman, Subcommittee on Fisheries Conservation, Wildlife and Oceans

I would like to welcome our witnesses to the second of what I hope will be a number of hearings on the important topic of the reauthorization of the Magnuson–Stevens Fishery Conservation and Management Act.

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As the Federal Government moves forward with new buyout programs, we need to review the previous programs to see how we can make any future buyouts more effective. I think the report also points out that there may be a number of different goals for buyout programs and any new programs should be designed to achieve those goals.

While I know there may be a temptation by some of our witnesses to turn this hearing into a debate on the merits of Individual Fishing Quotas on rationalizing our fisheries, I hope we can leave that for a future hearing. I understand some of you have mentioned IFQs in the context of capacity reduction options, but I hope

we can focus this hearing on the history and effectiveness of Federal buyouts and how we can improve the current authorization which is found in Section 312 of the Magnuson–Stevens Act.

I look forward to hearing from our witnesses.

Mr. GILCHREST. I will recognize Mr. Underwood when he arrives and he will be here momentarily but at this point I ask unanimous consent that the statement and attachments from Ambassador Mary Beth West of the U.S. State Department be included in the record of today's hearing and I ask unanimous consent that the information supplied by Mr. Pete Leipzig of the Fishermen's Marketing Association on the proposal for a Pacific groundfish buyback be submitted for the record.

[The prepared statement of Ambassador West follows:]

Statement of Ambassador Mary Beth West, Deputy Assistant Secretary for Oceans and Fisheries, Bureau of Oceans and International Environmental and Scientific Affairs, U.S. Department of State

Mr. Chairman and members of the Subcommittee:

Thank you for this opportunity to provide to the Subcommittee an update on international activities of the United States in support of capacity reduction programs and assessments of the effects of government subsidies on the fishing industry. In the view of the Department of State, continuing to push hard for international progress in both of these areas will promote U.S. interests in the field of international fisheries. We appreciate the interest of the Committee in these issues. We have also greatly appreciated the involvement and assistance of staff from the House Resources Committee in our preparations for, and as a part of our delegations to, international meetings concerning these subjects.

Current Status of World Fisheries—Why Action is Needed

The problem of overcapacity in fishing fleets is one that has developed over many years. As we contemplate ways to address the problem, it is useful to take stock of the current situation. According to the UN Food and Agriculture Organization (FAO), more than two-thirds of the world's fisheries have been fished to or beyond their capacity to sustain themselves, and an additional ten percent of stocks have already been depleted. Although the total catch in fisheries worldwide has remained relatively stable over the last decade at approximately 90 million metric tons annually, overcapitalized fleets have been able to maintain this production only by harvesting species fishers once disdained, such as monkfish, skate, and dogfish. Recoveries of once plentiful stocks that declined under the pressure of overfishing—such as cod in the Northwest Atlantic and Eastern Atlantic bluefin tuna—have not yet materialized.

The stakes are high for food security and for the economic well being of communities dependent on revenues from fishing activities. Nearly 1 billion people depend on fish as their primary source of protein. In its 1998 report on the state of the world's fisheries, the FAO forecast that world demand for seafood in 2010 will be 105–110 million tons, while capture fishery supplies will total only 95–100 million tons—a 10-million-ton shortfall. FAO estimates that worldwide, about 36 million people are employed in both the primary capture fisheries and aquaculture production sectors, comprising about 15 million full-time, 13 million part time and 8 million occasional workers. Policymakers will need to find ways to ensure that the level of effort, in both technological and human terms, is in line with the sustainable take of fish stocks. As the collapse of North Atlantic cod stocks shows, it is much less expensive and disruptive to people to manage a resource sustainably before depletion than to face the decimation of local communities dependent on such a resource.

The international community has noted the alarming trends in world fisheries and moved to negotiate agreements to promote sustainable fisheries. The 1995 UN Straddling Fish Stocks Agreement and the 1993 FAO Compliance Agreement are the most notable examples. The United States has become party to these agreements and has made concerted efforts to urge others to ratify them. The agreements are close to entry into force. Pending their entry into force however, the United States and likeminded nations have worked creatively to begin implementation of some of the elements and also to achieve progress in fisheries management through other mechanisms. We can report to you today that we have made progress in cre-

ating a widely accepted framework of international action plans to promote sustainable fisheries.

Developing Criteria for Fishing Capacity

As stated above, the international community under U.S. leadership has recognized the trends of overcapacity in fisheries and begun to take action to correct the problem. In 1997, the FAO initiated the negotiation of an International Plan of Action on fishing capacity (IPOA–Capacity). This IPOA–Capacity was adopted by the 23rd meeting of the FAO Committee on Fisheries (COFI) meeting in Rome in 1999. It sets forth a voluntary plan of action containing steps States should take to define and measure capacity of their fishing fleets, and to eliminate overcapacity determined to be detrimental to sustainability of fish stocks.

The IPOA–Capacity builds upon the FAO Code of Conduct for Responsible Fisheries Article 2(d), which all FAO member States have already undertaken to implement. The goal of the IPOA is to achieve by 2005 the efficient, equitable and transparent management of fishing capacity. The IPOA provides, among other things, that States and regional fisheries organizations confronted with an overcapacity problem, where capacity is undermining achievement of long-term sustainability outcomes, should endeavor initially to limit at present level and progressively reduce the fishing capacity applied to affected fisheries. Where long-term sustainability outcomes are being achieved, States and regional fisheries organizations nevertheless need to ensure that any growth in capacity does not undermine long-term sustainability objectives. These objectives are to be implemented through four major strategies:

- The conduct of national, regional and global assessments of capacity, including improvement of monitoring capabilities.
- The preparation and implementation of national plans (NPOAs) to effectively manage fishing capacity and of immediate actions for domestic fisheries requiring urgent measures.
- Strengthen the ability of regional fisheries organizations to deal with capacity issues.
- Immediate actions for major transboundary, straddling, highly migratory and high seas fisheries requiring urgent measures.

The National Marine Fisheries Service (NMFS), in consultation with other interested agencies, will prepare a U.S. NPOA by the end of 2002. Major world fishing states like Japan and the European Union reported significant progress on their NPOA development at the recent meeting of the FAO Committee on Fisheries. The United States is continuing to urge others to do so as well. Canada and Korea have recently approached the United States for advice on implementing various aspects of the IPOA–Capacity. The Department of State is engaged with NMFS, as well as with international and regional organizations such as the FAO and the Asia Pacific Economic Cooperation Forum (APEC) in providing technical and other assistance to other countries in their NPOA development processes to ensure that we do not undertake this significant effort alone. In particular, it will be important to ensure that emerging fishing States such as China and Vietnam address capacity issues with regard to their own fleets.

Because the FAO is the UN agency with the global expertise and political clout to deal with fisheries issues, its active participation in assisting developing countries in NPOA development and implementation is essential. However, its efforts are to some degree hampered by ongoing budget pressures within FAO, where the Fisheries Department, despite increasing demands from member countries, has extremely limited resources. In the two years since the adoption of the IPOA–Capacity, we note that the FAO has not been able to provide as much support for developing countries to implement national plans of action on capacity as originally envisioned.

The nations working on this issue through the FAO have recently reached agreement on definitions of the terms "capacity" and "overcapacity." The effort to do so has revealed a host of complex technical—and political—issues. While many think that overcapacity means too many boats in the water, it can also mean use of sophisticated harvesting technology that has outpaced the ability of stocks to replenish themselves. The definitional issue has been approached through the establishment of criteria for determining capacity. Consultations in 1998 in La Jolla and 1999 in Mexico City established the criteria to be used in defining capacity and the processes by which the definitions will be determined. After considerable debate, both meetings adopted the U.S. approach to definitions for capacity.

Capacity can be measured in two ways. The first involves input-based measurements, in which analysts look at the minimum set of inputs needed to produce a given level of output. For example, to achieve an output of a thousand pounds of

shrimp produced, one would need to know how much fuel, how many person-hours, how many boats in the given fleet, etc., were needed. Although this approach was initially favored by the majority in the international community, the United States successfully argued that this approach relied on detailed data that is collected almost nowhere in the world today, rendering implementation a monumental undertaking. Instead, the United States successfully argued for an output-based measurement.

Output-based measurements assume a specific level of input and then determine the difference between the output actually produced and the output that could be produced if restrictions such as trip limits were lifted. This theoretical statistical approach is much more achievable with current data gathering practices. For example, overcapacity in a fleet would be determined as follows. Assume that a tuna fleet is shown to have the potential to harvest 300% of the catch it is currently taking. A fleet reduction of two-thirds would therefore be necessary to ensure that the potential catch in the fishery matches the actual catch in the fishery. The Mexico City meeting adopted this method, with some minor caveats, as the internationally accepted method for measuring capacity.

The United States hopes to continue its leadership role by co-chairing an FAO technical consultation in February 2002 on managing fishing capacity. This consultation will review a variety of measures States could take to reduce overcapacity in fishery operations with the goals of providing recommendations. Examples of the measures being adopted by some or all fishing states include vessel buybacks, fishing moratoria, and rights-based fisheries. After this technical consultation, the information will be made available to member States for their use in the development of their NPOAs on capacity.

Assessing the Effects of Subsidies on the Fishing Industry

The IPOA on Capacity also addresses the topic of subsidies. The IPOA declares that "when developing their national plans for the management of fishing capacity, States should assess the possible impact of all factors, including subsidies, contributing to overcapacity." It further states that "States should reduce and progressively eliminate all factors, including subsidies and economic incentives and other factors which contribute, directly or indirectly, to the build-up of excessive fishing capacity.

The United States has taken the position that the FAO is an appropriate institution to analyze and address the affects of subsidies on fisheries, and in particular the sustainability of stocks. We have also argued, however, that any actual measures regarding subsidies would have to be dealt with in the trade context through the World Trade Organization (WTO). As the body with trade expertise, the WTO is the organization to identify environmentally harmful and economically distortive fish subsidies and develop appropriate disciplines for them. Other fora are also involved and contributing actively to the analytical and technical work that is needed to identify and determine the true effects of subsidies. These include the Organization of Economic Cooperation and Development (OECD) Committee on Fisheries, the APEC fisheries working group, and the UN Environment Programme. For example, the OECD has recently published an important study of the effects of government financial transfers on fisheries that will contribute to the overall policy debate. Across the range of active fora, the United States has worked closely on subsidies with a group of countries that has come to be known as the "Friends of Fish," including Argentina, Australia, Chile, Iceland, New Zealand, and Norway.

Subsidies that promote unsustainable fishing contribute to the overcapacity problem. In principle, fishing beyond the point of maximum sustainable yield should ultimately drive a number of vessels out of fisheries as their efforts became unprofitable. Unfortunately, subsidies programs have the effect of underwriting unsustainable fishing practices, to the detriment of sound conservation. Current debate has focused on two key areas. First, widespread agreement exists among experts, including within the USG, that the management context in which a subsidy occurs will have a substantial impact on the effect that subsidy has both on trade and on sustainability of stocks. How to quantify that role and how to capture it in a manageable trade regime are difficult issues. Second, the identification of "good" and "bad" environmental effects of subsidies is to a large extent informed by the discussion of the role of management in subsidies. For fisheries that are regulated as a common property resource, different types of subsidies schemes can have vastly different effects on sustainability. For example in one management context a subsidy may provide incentives for overfishing and the depletion of a stock, while in another management context, the exact same subsidy can lead to decreased fishing and greater conservation of the stock.

The United States remains heavily engaged on the subsidies issue in numerous international fora. In order to promote more effective consideration of the issues, at

the last FAO COFI meeting, the United States led a successful initiative to bring the Secretariats of the various inter-governmental organizations, such as WTO, FAO, OECD, and APEC, together in a coordination process. Finally, the Department of State will support USTR in its efforts, as appropriate, to push action on detrimental fisheries subsidies in the WTO.

Deterring Illegal, Unregulated and Unreported Fishing

Another recent initiative has been our successful effort to adopt in the FAO an IPOA to deter and eliminate illegal, unregulated and unreported (IUU) fishing. This agreement, negotiated in Rome in a series of meetings culminating in the 24th meeting of FAO COFI in March 2001, provides States with a tool box for actions to deter and eliminate IUU fishing both in their exclusive economic zones and on the high seas. Measures more readily available to States as a result of this IPOA include:

- Port State measures to deter IUU fishing products being transshipped or unloaded.
- Flag State measures to get at the flag of convenience problem.
- Market measures that can be adopted multilaterally, for example to deter IUU fishing in the area of competence of regional fisheries management organizations.
- Strengthened measures for monitoring control and surveillance of fishing fleet activities.

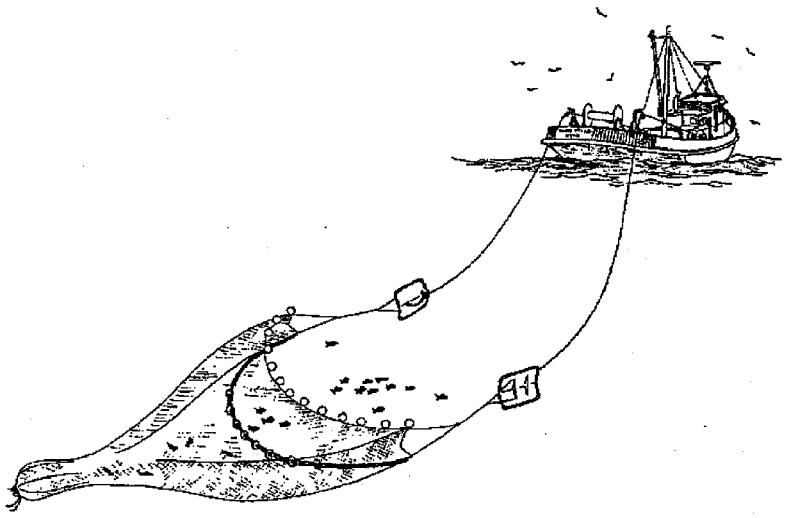
We intend to use this IPOA in every way possible to crack down on illegal fishing, particularly by vessels flying "flags of convenience." IUU fishing contributes to overcapacity. It undercuts effective data collection by making it impossible to determine which vessels are fishing, where they are fishing, and how much they are catching. It also undercuts the management measures established by regional fisheries management organizations. In short, the IUU IPOA negotiated this year forms an important complement to our efforts on capacity.

Mr. Chairman, with this testimony, we are submitting to the Committee copies of the two IPOA's I have discussed. As is evident, further work will be necessary before these IPOA's can be implemented. We believe it is important that international standards such as these to achieve sustainable fisheries be set and followed. The United States has been at the forefront of this effort not only because we care about sustainable fisheries, but also because such rules help level the playing field for the U.S. fishing industry. We look forward to continuing to work with the Committee on these matters.

Thank you Mr. Chairman. I apologize for my inability to attend today. Should you wish further information on these matters, we would be pleased to provide it.

[The report entitled "Pacific Groundfish Buy-Back Program" by Peter Leipzig submitted for the record follows:]

PACIFIC GROUNDFISH BUY-BACK PROPOSAL AND A REVISED SUMMARY AND ANALYSIS OF THE 2001 GROUNDFISH BUY-BACK QUESTIONNAIRE



Peter Leipzig
Fishermen's Marketing Association
320 Second Street
Suite 2B
Eureka, CA

APRIL 17, 2001

PACIFIC GROUNDFISH BUY-BACK PROPOSAL

Introduction:
The Pacific Fishery Management Council has determined that capacity reduction is required in all sectors of the groundfish fishery. In order to reduce the fishing capacity in the West Coast groundfish fishery there will be a "buy-back" program that will involve a combination of government and industry-funding. This plan will include the purchase of vessels and all fishing permits, including the state fishing permits assigned to a vessel. The goal of the program is to reduce the groundfish fleet by 40%-65%.

Eligibility:
All Pacific groundfish limited entry permit holders would be eligible to participate in this buy-back program, with the exception of those permit holders holding Newport Beach dory permits.

There would be two categories of eligible participants. Those selling the permit only (this is a small group) and those selling their permit, vessel and associated state permits. A person can sell a permit only when they no longer own a vessel (sinking, sale prior to date, etc.). All other permit owners wishing to sell must submit a bid for the sale of the vessel and all permits.

How the Buy-back will work:
The Secretary/NMFS would send a notice to all permit holders about the program. Each qualifying person wishing to sell only their permit will be offered $X per foot. This is a "take it or leave it" offer. Priority will be given to the purchase of these qualifying permits that are not associated with a vessel.

The balance of the program will utilize a "blind, silent, reverse auction". This program will have limited funding. Therefore, interested sellers will not have a "blank check" to ask for and receive any amount they wish. Each bid must be evaluated for its cost in relation to the benefit of removal. To accomplish this, each bid submitted will be scored by dividing the bid amount by the total fishing revenue for that vessel (Washington, Oregon and California for 1998 to 2000). The resulting score is the ratio of bid to earnings (capacity). These resulting scores will be ranked from low to high. The lower the bid, relative to the gross revenue, the lower the score will be. Permits would be purchased beginning with the lowest score and continue until the amount of money available is used. All permits with scores greater than the cumulative amount of money available will not be purchased. This will result in removing the largest amount of fishing capacity for the least amount of money.

Program funding:
This program will be funded by a combination of Government and Industry money. The Industry share will be provided by the Government as a loan that will be repaid over time by the remaining participants in each of the fisheries.

Industry Cost Sharing:
Since this program will be removing not only groundfish permits, but also Dungeness crab, Pink shrimp, and Salmon permits, capacity reduction will be occurring in each of these fisheries and the remaining participants in these fisheries will derive benefit from the program. Therefore, the cost of the industry portion of this program will be shared by the remaining participants in each of the fisheries in proportion to the benefit that each sector derives. In other words, each fishery will pay for the capacity reduction that occurs in their fishery.

To determine the amount each sector shall share of the total, the cost of each individual buy-back sale would be distributed to an account for each fishery by state, based upon the percentage of gross revenue that each fishery represented during 1998 – 2000 for that boat. (For example, if a vessel and permits sold for $200,000. If 70% of the base years revenue came from trawl groundfish, 20% from Oregon shrimp and 10% from California crab, then the trawl groundfish share would be $140,000, the Oregon shrimp share would be $40,000 and California crab would be $20,000)

Fee System:
To repay each sectors share of the industry portion of the program, a fee system will be established and it will be applied to all remaining participants in the Groundfish, Pink Shrimp, Pacific Salmon and Dungeness crab fisheries. The fee would be set as a percentage of gross revenue for each delivery. The rate would be calculated so that the groundfish, shrimp, Pacific Salmon and crab fisheries generate sufficient revenue to repay their respective share of the cost. Therefore the rate set for each sector may be different.

The fee for each sector would be set at a rate sufficient to repay the loan but may not exceed 5 percent of the ex-vessel value. These fees would be deducted from the sale by the fish company and paid to the state similar to landing taxes. The state would then transfer the money to the Secretary.

FOR MORE INFORMATION CONTACT:

Peter Leipzig
Executive Director
Fishermen's Marketing Association, Inc.
320 Second Street, Suite 2B
Eureka, CA 95501

707-442-3789
707-442-9166 (FAX)
fma@trawl.org

SUMMARY OF QUESTIONNAIRE RESPONSES

In mid-January 2001 a questionnaire was mailed to all holders of Pacific Groundfish Limited Entry permits. The purpose of the questionnaire was ascertain the level of interest by permit holders in selling their permit and vessel in a buy-back program and to produce an estimate of the cost of conducting such a program.

There were 499 questionnaires mailed. For the purpose of analyzing the response, the eight Newport Beach, California dory fleet permit holders and 10 factory trawl permit holders have been excluded from the analysis for a total of 481 permits. Additionally, since several permits are endorsed with more than one gear type a single gear was assigned to these permits. There are five permits that show both "trawl and longline" or "trawl and pot". Four of these were assigned to the trawl group, while one that had not trawled in recent years was assigned to longline. Those permits that possessed "longline and pot" were assigned to the pot group.

Each questionnaire was assigned a unique number that identified the holder of the permit. A second mailing of the questionnaire was sent in mid-February to each permit holder that had not yet returned the questionnaire. A copy of the questionnaire is attached (Figure 1).

Table 1 summarizes the returns, which ran from 73% for trawl to 48% pot. Generally, permit holders own the boat that their permit is assigned and also hold permits to participate in other fisheries. Roughly 72% of the trawl permit holder were interested in selling, while 47% of the non-trawl permit holder wanted to sell. Assuming that non-respondents would answer similarly to responding permit holders, an expanded estimate of the total number of interest sellers was 189 for trawl and 102 for non-trawl (Table 2)

The cost of the program is more difficult to estimate. Bid responses were "scored" by dividing the bid amount for each vessel by the 1998-2000 gross fishing revenue for that vessel. (These calculations were performed by NMFS and the revenue information for each vessel was held confidential.) These were then ranked from low to high score. Generally, the non-trawl bid amount was higher than trawl amounts for similar revenue. Figure 2 shows the cumulative number of boats by gear against the total dollar cost of the program. The relative higher bid of the non-trawl boats is seen as increasing numbers only at very high total dollar amounts. If this program had a total dollar amount of $50 million available, few non-trawl permits would be purchased unless the submitted bid was much less than the response on the questionnaire.

Table 3 summarizes the number of state fishery permits that were held by individuals indicating an interest in submitting a bid in a buy-back program.

Table 4 provides an estimate of the percentage of the cost of the program to the remaining groundfish and state fishery participants.

Table 5 presents an estimate of the time required to repay loan at the maximum rate.

Table 6 presents an estimate of the fee required to repay loan over time.

Figure 1.

Questionnaire Number _____

GROUNDFISH BUY-BACK QUESTIONNAIRE

1) What gear endorsement(s) does your permit have?

Trawl _____
Longline _____ → Sablefish endorsed? Yes ____ No ____
Pot _____ → Sablefish endorsed? Yes ____ No ____

2) Is your groundfish permit currently assigned to a vessel that you own?

Yes _____ No ____

3) If yes, for the vessel that your groundfish permit is assigned, are there also any State fishery permits assigned? Yes _____ No _____

If yes, which State fishery permits do you also have:

	Calif.	Oregon	Wash.
Pink shrimp	_____	_____	_____
Dungeness crab	_____	_____	_____
Pacific Salmon	_____	_____	_____
Other (1) _____	_____	_____	_____
Other (2) _____	_____	_____	_____

4) If a buy-back program were made available to you that provided an **option** of selling either your groundfish permit alone **OR** selling your groundfish permit, and all State permits along with your vessel, what would your likely do?

a. Submit a bid to sell groundfish permit alone _____
b. Submit a bid to sell all permits and boat _____
c. Not submit a bid _____

If above you indicated you would likely submit a bid in either a or b, please state your estimated bid price for sale. _____

5) If in question 4a, you indicated that given the option, you would likely submit a bid to sell the groundfish permit alone, would you also be likely to submit a bid if a buy-back program were made available to you that **required** the selling of your groundfish permit, all State permits and your vessel?

Yes _____ No _____

If above, in #5, you indicated YES, you would likely submit a bid, please state your estimated bid price for sale for all permits and vessel. _____

Table 1. SUMMARY OF BUY-BACK QUESTIONNAIRE

QUESTION #1	# OF PERMITS	RETURNED QUESTIONNAIRES	PERCENT RETURNED
TRAWL	263	193	73.4%
LONGLINE	187	115	61.5%
POT	31	15	48.4%
TOTAL	481	323	67.2%

SABLEFISH ENDORSED ?	# OF PERMITS	RETURNED QUESTIONNAIRES	PERCENT RETURNED
LONGLINE	131	84	64.1%
POT	31	15	48.4%
TOTAL	162	99	61.1%

QUESTION #2 - OWN BOAT?	YES	%	NO	%
TRAWL	174	90.6	18	9.4
LONGLINE	86	79.6	22	20.4
POT	11	78.6	3	21.4

QUESTION #3 - STATE PERMITS?	YES	%	NO	%
TRAWL	135	77.6	39	22.4
LONGLINE	68	79.1	18	20.9
POT	11	100.0	0	0

QUESTION #4 - SELL WITH CHOICE	4a	%	4b	%	4c	%	total
TRAWL	50	26.3	100	52.6	40	21.1	190
LONGLINE	23	20.9	39	35.5	48	43.6	110
non-endorsed	12	38.7	11	35.5	8	25.8	31
endorsed	11	13.9	28	35.4	40	50.6	79
POT	2	14.2	2	14.2	10	71.4	14

QUESTION #5 - NO CHOICE	YES	%	NO	%
TRAWL	24	63.2	14	36.8
LONGLINE	9	45.0	11	55.0
non-endorsed	4	40.0	6	60.0
endorsed	5	50.0.	5	50.0
POT	2	100.0	0	0

Note: Since some respondents did not answer all questions, totals may not sum to the total number of returns.

Table 2. ESTIMATED NUMBER OF WILLING SELLERS

	Permit	Boat & Permit	Total	Percent
TRAWL	20	169	189	71.9%
NON-TRAWL	15	87	102	46.7%
LL-endorsed	8	51	59	45.0%
LL- nonendorsed	7	27	34	61.3%
Longline total	15	78	93	49.9%
Pot	0	9	9	27.6%
TOTAL	**36**	**255**	**291**	**60.5%**

REDUCTION GOALS:

TRAWL	106 - 172
NON-TRAWL	87 - 142
TOTAL	**193 - 314**

Note: Data presented are an expansion of questionnaire results. The values for permit only represent those responses to question #4a that also did not own the vessel that their permit was assigned. The values for boat and permit is the sum of responses to question #4b and those that responded YES to question #5.

Figure 2.

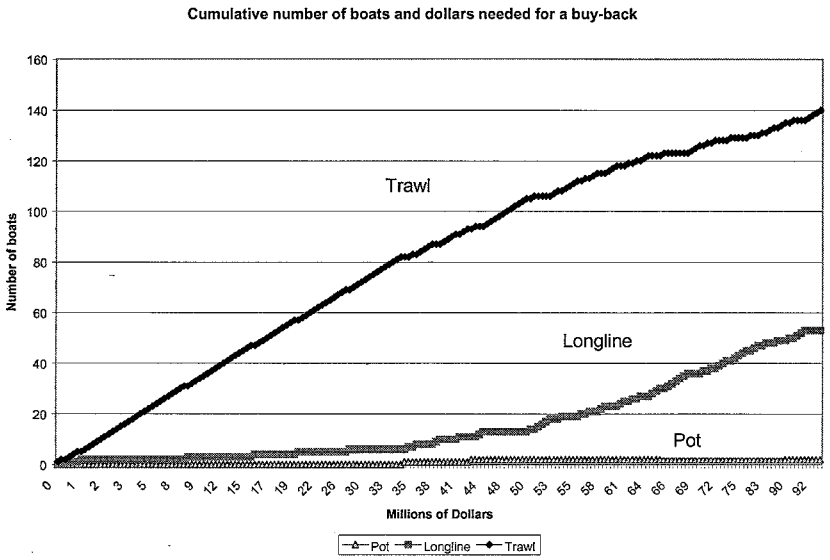

Cumulative number of boats and dollars needed for a buy-back
Number of boats
160
140
120
100
80
60
40
20
0
Trawl
Longline
Pot
0 1 2 3 5 8 9 12 15 17 19 22 26 30 33 35 38 41 44 48 50 53 55 58 61 64 66 69 72 75 83 90 92
Millions of Dollars
Pot
Longline
Trawl

Table 3. ESTIMATED NUMBER OF STATE PERMITS BY FISHERY AND STATE THAT WOULD BE SOLD IN A GROUNDFISH BUY-BACK PROGRAM

	WASHINGTON	OREGON	CALIFORNIA	TOTAL
SHRIMP				
TRAWL	19	41	47	107
LONGLINE	1	0	0	1
POT	0	0	1	1
TOTAL	20	41	48	109
CRAB				
TRAWL	1	13	36	50
LONGLINE	7	8	11	26
POT	0	0	0	0
TOTAL	8	21	47	76
SALMON				
TRAWL	2	7	14	23
LONGLINE	2	11	16	29
POT	0	1	1	2
TOTAL	4	19	31	54

Table 4. AN EXAMPLE ESTIMATING THE PERCENTAGE OF THE COST OF THE BUY-BACK PROGRAM TO THE VARIOUS FISHERIES

Assume the following average sale price and distribution of revenue

	groundfish	shrimp	crab	salmon	sale price
trawl	72%	10%	13%	5%	$350,000
non-trawl	49%	1%	35%	15%	$150,000

	# Permits			
	Trawl	Non-trawl	$	%
GROUNDFISH				
Trawl	125		$31,500,000	64.7%
Non-trawl		50	$8,575,000	17.6%
SHRIMP				
Washington	19	1	$666,500	1.4%
Oregon	41	0	$1,435,000	2.9%
California	47	1	$1,646,500	3.4%
CRAB				
Washington	1	7	$364,000	.7%
Oregon	13	8	$955,500	2.0%
California	36	11	$2,138,500	4.4%
SALMON				
Washington	2	2	$90,000	0.2%
Oregon	7	12	$540,000	1.1%
California	14	17	$765,000	1.6%
Total			$48,676,000	100%

Table 5. ESTIMATED AVERAGE ANNUAL PAYMENT AND YEARS TO REPAY INDUSTRY SHARE OF THE BUY-BACK PROGRAM BY SECTOR

Exvessel price		Industry share of $25,000,000	10 yr mean pounds	estimated dollars	Ave. annual payment @ 5%	Yrs to repay
	GROUNDFISH					
	Trawl	$16,178,404		$52,000,000	$2,600,000	6.2
	Non-trawl	$4,404,121		$16,500,000	$825,000	5.3
$0.40	SHRIMP					
	Washington	$342,314	9,720,000	$3,888,000	$194,400	1.8
	Oregon	$737,016	24,750,000	$9,900,000	$495,000	1.5
	California	$845,643	10,000,000	$4,000,000	$200,000	4.2
$1.50	CRAB					
	Washington	$186,950	16,500,000	$24,750,000	$1,237,500	0.2
	Oregon	$490,745	10,420,000	$15,630,000	$781,500	0.6
	California	$1,098,334	9,600,000	$14,400,000	$720,000	1.5
$1.25	SALMON					
	Washington	$46,224	1,100,000	$1,375,000	$68,750	0.7
	Oregon	$277,344	2,300,000	$2,875,000	$143,750	1.9
	California	$392,904	4,400,000	$5,500,000	$275,000	1.4

Table 6. ESTIMATED ANNUAL LOAN PAYMENTS AT 8% INTEREST AND FEE REQUIRED TO REPAY LOAN

	Industry share of $25,000,000	Estimated annual payment (years of loan)		Estimated annual rate (years of loan)	
		20	30	20	30
GROUNDFISH					
Trawl	$16,178,404	$1,647,806	$1,437,086	3.2%	2.8%
Non-trawl	$4,404,121	$448,569	$391,207	2.7%	2.4%
SHRIMP					
Washington	$342,314	$34,865	$30,407	0.9%	0.8%
Oregon	$737,016	$75,067	$65,467	0.8%	0.7%
California	$845,643	$86,131	$75,116	2.2%	1.9%
CRAB					
Washington	$186,950	$19,041	$16,606	0.1%	0.1%
Oregon	$490,745	$49,983	$43,592	0.3%	0.3%
California	$1,098,334	$111,868	$97,562	0.8%	0.7%
SALMON					
Washington	$46,224	$4,708	$4,106	0.3%	0.3%
Oregon	$277,344	$28,248	$24,636	1.0%	0.9%
California	$392,904	$40,018	$34,901	0.7%	0.6%

Mr. GILCHREST. I want to welcome all the witnesses here this morning and I appreciate your attendance and your testimony and we will get started with Dr. Hogarth.

STATEMENT OF WILLIAM T. HOGARTH, PH.D., ACTING ASSISTANT ADMINISTRATOR FOR FISHERIES, NATIONAL MARINE FISHERIES SERVICE

Dr. HOGARTH. Thank you, Mr. Chairman. It is always an honor to come before this Committee and discuss fishery issues and ways that we can do a better job of ensuring we have a viable fishery for our citizens for the future.

I thank you for inviting me today to testify on the government programs to reduce fishing capacity and the implications of subsidies in the fisheries sector. I am Bill Hogarth, the Acting Assistant Administrator for Fisheries in the Department of Commerce.

Let me begin by saying the two subjects of this hearing are matters of serious concern to NOAA fisheries. On April 4 I testified on the Magnuson-Stevens Fishery Conservation and Management Act and I stated that I believe that matching harvesting capacity with available resources is one of the agency's highest priority concerns. The capacity reduction programs, in particular vessel buybacks and subsidies, are two issues among others that we must examine to manage capacity effectively.

I understand that this hearing will focus on two recent reports, one by GAO on buybacks and another mandated by the Sustainable Fisheries Act on subsidies. To place the findings and recommendations of these two reports in a more meaningful context, I would like to say a few words about the history of these two issues. I will then comment on the main points of these reports.

I do not think that anyone doubts the fact that there is overcapacity today in the harvesting sector of the U.S. fishing industry. As we examine the evolution of government policies from the establishment of our 200-mile fishery conservation zone in 1977 it is clear that the U.S. government's policies promoted increases in harvesting capacity for roughly the first 10 years or so after the extended jurisdiction. Growth in harvesting capacity was actively and consciously promoted by law, fishery management and trade policies and by industry assistance programs and programs administered by NOAA Fisheries and by other Federal agencies, including units of the Department of Commerce and the Department of Agriculture, among others.

For the sake of accuracy, I would like to point out that these policies were successful, extremely successful. We came from a nation that was about seventh or eighth in harvesting to approximately third or fourth. We have increased our harvest capacity very well and we have done a great job doing that. Our 200-mile exclusive economic zone was almost entirely Americanized by the late 1980's. Domestic harvests were up, U.S. exports were up. We are number one or number two in exports, particularly to Japan. Within about a decade, the United States joined the ranks of the top fishing powers.

However, about the same time, evidence appeared that harvesting capacity was excessive for some major species. NOAA Fisheries, the Regional Fishery Management Councils, industry rep-

resentatives, and the environmental organizations began to question the need for assistance programs and gradually a change in policy began to take shape.

Today we are dealing with overcapacity in many of our Federally managed fisheries in a number of ways. Essentially we have four broadly defined tools to address this issue: vessel and permit buybacks, limited entry systems, rights-based management systems and laws governing the location of construction, U.S. citizenship ownership and the physical size of U.S.-documented fishing vessels.

With respect to subsidies, there is a parallel story. Federal policies and programs have helped to promote harvesting capacity. In many cases capacity-enhancing subsidies, such as loans and grants to the fishing industry, have been reduced or modified in a manner not to further encourage additional harvesting capacity. More emphasis has been placed in recent years on programs and policies that help reduce capacity.

The two reports the Subcommittee is focussing on today deal in different ways with the government's role. First, promoting the expansion of capacity and second, reducing capacity to more sustainable levels. Basically, NOAA Fisheries agrees with the main findings of these reports and we believe both were well prepared and reasonably argued. Clearly the Federal Government has to ensure that public funds appropriated by Congress for buybacks of fishing permits and vessels must be wisely used to achieve the intended results. Equally important is the need to review fishery assistance programs continually to ensure that these programs effectively serve the needs of today's fisheries policies.

One basic point I would like to make today is that to do these jobs we need a better and more precise understanding of some key concepts. On the capacity side we must define and measure capacity and overcapacity better than we have in the past. On the subsidy side we need a more accurate updated inventory of Federal subsidies provided to the fishing sector, including the implications of subsidies for levels of effort and capacity in Federally mandated fisheries.

Today I can report that we are making progress in these areas. NOAA Fisheries formed an internal working group two years ago to examine definitions and measurements of capacity in fisheries, and this group has completed a technical report on this topic and just issued another report that assesses capacity qualitatively in the majority of Federally managed fisheries. Our next job is to develop a quantitative report that will further examine overcapacity in U.S. fisheries.

As for subsidies, NOAA Fisheries has participated or will participate in a number of international studies conducted by the Organization for Economic Cooperation and Development, the Asia Pacific Economic Cooperation Forum, the United Nations Food and Agriculture Organization, and the World Trade Organization, all of which looked at this issue from the international perspective.

We now have a much better idea of how to measure harvesting capacity and a more comprehensive and technically precise appreciation of the effects of fishing sector subsidies in the U.S. and abroad. With improved analytical tools, our ultimate goal is to

manage capacity and administer assistance programs in ways that support sustainable fisheries.

Mr. Chairman, this concludes my testimony and I will be happy to answer any questions you or other members of the Committee may have. Thank you.

[The prepared statement of Mr. Hogarth follows:]

Statement of William T. Hogarth, Ph.D., Acting Assistant Administrator for Fisheries, National Marine Fisheries Service, U.S. Department of Commerce

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to this hearing on capacity reduction programs and subsidies in the fisheries sector. I am William T. Hogarth, the Acting Assistant Administrator for Fisheries in the National Oceanic and Atmospheric Administration/Department of Commerce.

The subjects of this hearing are two related issues: fishing capacity reduction and the subsidies provided by the Federal Government to the fishing industry, in particular subsidies that influence levels of capacity. More specifically, this hearing will address two recently completed reports. The first report, issued by the General Accounting Office almost a year ago, assesses Government programs to reduce overcapacity through publicly funded buyouts. The second report was mandated in the 1996 Sustainable Fisheries Act amendments to the Magnuson–Stevens Fishery Conservation and Management Act (Magnuson–Stevens Act) to examine the influence of subsidies and other Federal programs in both the expansion and contraction of fishing capacity. One theme that appears in both reports is the use of public funds, or subsidies, to achieve reductions of overcapacity in the fish harvesting sector.

NMFS POLICES ON MANAGING CAPACITY AND PROVIDING SUBSIDIES: THE HISTORIC VIEW

Before I discuss these two reports and comment on their findings, I thought it would be helpful to the Subcommittee to review briefly the larger context. Accordingly, I would like to spend a few moments on the Federal Government's historic role in, first, promoting and managing capacity, and, second, providing publicly funded economic assistance to the fisheries sector. The key point is that these roles have evolved considerably over the last two decades, and, once we understand those changes, we can address these two reports.

When the Magnuson–Stevens Act was passed 25 years ago, the U.S. fishing industry lacked the capacity to harvest all the resources in our 200-mile Exclusive Economic Zone (EEZ). Congress, NMFS and the industry embarked on a program to promote domestic capacity. Now, we are confronted with a situation in which there is overcapacity in many Federally managed fisheries.

Viewed historically, it is apparent that Federal laws, programs and policies to promote the development of the U.S. fishing industry from 1977 to roughly 1990 are among the reasons we are now dealing with overcapacity. To place these issues in a more meaningful context, I thought it would be helpful to review briefly how "undercapacity" became "overcapacity." When the United States established a 200-mile fishery conservation zone in 1976, the Fishery Conservation and Management Act (FCMA), and the American Fisheries Promotion Act (1980) launched a broadly supported Congressional and Administration policy of promoting growth in domestic harvesting capacity and Americanization of the zone. As a result, in the years up to about 1990, foreign operations were gradually phased out and domestic landings, revenues, and exports increased.

U.S. Government policy fostered this growth in harvesting capacity in many ways. Domestic fishermen were encouraged to engage in fisheries that had previously been dominated by foreign vessels, including fisheries for species that were considered "underutilized" in the U.S. market. Investment tax credit provisions in the IRS code until 1986 stimulated spending on new vessel construction. Federal loans, loan guarantees, and tax deferral programs stimulated the purchase, repair, and refitting of fishing vessels. Direct grant programs, such as the Saltonstall–Kennedy Fishery Development Grants program, provided seed money for new product development and other projects. Foreign allocations and trade policies were linked through the so-called "Fish and Chips" initiative to promote foreign market opportunities for U.S. producers.

I think it is important to point out that these policies were successful in achieving full domestic use of the EEZ resources in a relatively short period of time. By the end of the 1980s, the U.S. EEZ was, for all practical purposes, fully Americanized, with no directed foreign fishing and only modest levels of foreign participation in

"over-the-side" joint ventures. The United States became a major fishing power, and one of the top few seafood exporters in the world. However, it soon became clear that at least some key segments of the harvesting sector had developed excessive production capacity. Traditional fisheries stocks suffered major declines in parts of the U.S. EEZ. User conflicts among domestic groups of fishermen multiplied. By the end of the 1980s, everyone involved, including the Congress, NMFS, the Regional Fishery Management Councils (Councils) and industry became increasingly interested in ways to constrain harvesting capacity to more sustainable levels.

NMFS and the Councils began to explore various forms of limited entry in many Federally managed fisheries; direct grants for research and development declined and various other domestic and international market promotion activities were curtailed or terminated. Congress passed the Commercial Fishing Vessel Anti–Reflagging Act of 1987 that placed more restrictive limits on foreign investments in U.S.-documented and -flagged fishing vessels.

FROM PROMOTING TO MANAGING CAPACITY

Nevertheless, it was clear by the early 1990s that the overcapacity problem persisted and was extremely serious in certain fisheries. In the Northeast groundfish fisheries, for example, the resources were declining and could not support existing levels of effort and capacity. In the North Pacific fisheries for Alaska pollock and other bottomfish species, the race to invest in both at-sea and shoreside facilities, spurred by domestic policies, foreign investments, and attractive export opportunities, created a major user conflict during practically the entire decade.

Now I would like to review briefly the major programmatic and legal tools that have capacity-constraining implications:

• *Buybacks*

The most obvious and explicit means of addressing overcapacity is to buy out surplus vessels and/or permits. For almost a decade, Congress, NMFS and various industry groups moved toward more direct and aggressive interventions in the capacity problem. Starting in 1994, the Federal Government began to purchase redundant vessels and/or permits in selected fisheries. Initially, publicly funded vessel/permit buybacks were conducted in the Northeast groundfish and Pacific Northwest salmon fisheries. From 1994 to 1999, a total of almost $56 million was appropriated under various statutes to fund seven separate buybacks in the Northeast multispecies, Gulf of Mexico fisheries, Northwest salmon, and Alaska pollock and crab fisheries.

The 1996 amendments (SFA) to the Magnuson–Stevens Act authorized a new type of buyback, in which public and private resources could be used to fund the removal of redundant vessels. The SFA's Section 312 (b)–(e), Fishing Capacity Reduction Program, stipulated that buybacks conducted under this provision must "prevent the replacement of fishing capacity removed by the program," be "cost-effective," and "obtain the maximum sustained reduction in fishing capacity at the least cost." Funding could be provided from a variety of public sources and from "an industry fee system." NMFS has expended considerable effort in the last few years to develop rules to implement these public/private partnerships.

The 1998 American Fisheries Act (AFA) legislated a buyback of nine at-sea Alaska pollock vessels with a direct Federal payment and a Federal loan that pollock fishermen will repay with assessments levied on their future first sales. Technically, the AFA buyback was achieved through direct legislation rather than under Section 312 of the Magnuson–Stevens Act, but the key point is the public/private partnership in paying its costs.

• *Limited Entry*

Limited entry provisions have a long history in domestic fisheries, and often serve as a first step toward more restrictive measures. In U.S. Federally managed fisheries, the Councils and NMFS paid increasingly serious attention to this category of regulations, and introduced limited entry in most FMPs. At the present time, practically all Federally managed fisheries have at least some form of limited entry from a control date to a moratorium on new entrants. Generally, limited entry, in particular its stronger forms, constrain or prevent new entrants but do not effectively limit the capacity of existing participants in a fishery. Nevertheless, limited entry may be a first step in a program of restricting participation in fisheries.

• *Systems Based on Allocations to Individuals or Specific Groups*

During the early 1990s, some of the Councils also began to consider management systems based on allocations to individuals or specific groups as a means to enhance the effectiveness of the management process, improve the industry's economic performance, and reduce overcapacity. One example is Individual Fishery Quotas

(IFQs), in which an allocation or share of the catch is assigned to an individual participant/vessel in the fishery. IFQs were introduced in the surf clam/ocean quahog and wreckfish fisheries in the Atlantic and in the sablefish/halibut fishery in the North Pacific during the 1990s, and all three IFQs have, according to the 1999 National Academy of Sciences report mandated by the SFA, had some capacity-constraining effects in those fisheries.

These systems include a variety of arrangements, not all of which assign quotas to individual participants. Community development quotas (CDQs), which were established in the 1990s for western Alaska native communities, are another form of such a system. Fisheries cooperatives, although not harvest rights-based systems in the strict sense, may function like IFQs. The 1998 American Fisheries Act created various cooperatives of Alaska pollock producers. More recently, another cooperative of fishermen in the Alaska sea scallop fishery was formed.

IFQs, CDQs, and the Alaska Bering Sea pollock cooperatives have had discernible capacity mitigating effects, and generally have yielded appreciable levels of economic and conservation benefits. In the two Atlantic IFQs for surf clam/ocean quahog and wreckfish, in which quotas shares are highly transferable, the decline in participation has been most dramatic.

• *Statutory Regulations on Vessel Construction, Ownership and Size*

Although maritime laws generally are not categorized as instruments that manage capacity, these statutes do have implications for levels of harvesting capacity. Recently, U.S. laws that govern these matters have become more restrictive, first in 1987, with the passage of the Commercial Fishing Vessel Anti–Reflagging Act, and then in 1998, with the AFA. Under U.S. law, fishing vessels, to be documented by the U.S. Coast Guard, must be constructed in domestic shipyards and U.S. citizen ownership shares must be 75 percent. In addition, the 1998 AFA restricted, with certain specific exemptions, the eligibility for fishery endorsements of vessels greater than 165 feet in registered length, more than 750 gross registered tons, and with engines capable of producing more than 3,000 shaft horsepower. These documentation requirements prevent foreign-built and foreign-controlled vessels from participating in Federally managed fisheries and limit the eligibility of extremely large vessels. Available data and studies do not support any firm conclusions about the net effects of these statutes on fishing capacity.

NMFS INITIATIVES ON THE FISHING CAPACITY ISSUE

During the last several years, NMFS has pursued a number of voluntary initiatives dealing with fishing capacity in both the international and domestic spheres.

In the international arena, NMFS, working with the Department of State, dedicated considerable efforts to technical consultations and negotiations leading to the 1999 agreement in the United Nations Food and Agriculture Organization (FAO) of an international plan of action on the management of fishing capacity (IPOA/capacity). The IPOA/capacity is a voluntary and not a binding agreement, but we feel that it represents a potentially important step in the right direction in our efforts to deal cooperatively with other nations on this difficult issue. Most notably, all FAO members who agreed to the IPOA/capacity must produce national plans of action to better manage capacity levels in their domestic fisheries by the end of 2002, and to "reduce and progressively eliminate all factors, including subsidies and economic incentives ... which contribute to the build-up of excessive fishing capacity." An important and fundamental point about the FAO agreement is that international cooperation on this issue should yield benefits for U.S. fishermen and Federally managed fisheries, in particular those fisheries in which there is both U.S. and foreign participation.

In the domestic arena, NMFS established a performance measure under its strategic plan that explicitly addresses this issue. Several years ago, under the planning element, Build Sustainable Fisheries, we agreed to an objective "to reduce the number of overcapitalized fisheries by 20 percent by 2005."

In 1998, NMFS established a working group of agency economists and other fisheries specialists to develop definitions and measures of capacity and overcapacity. This group has worked for more than two years on these complicated issues. Recently, the internal working group issued a report that identifies capacity in most Federally managed fisheries based on qualitative indicators. The working group will soon issue another report on technical and economic definitions and measures of capacity. We continue to work on assessments of quantitative measures of capacity, and convened a meeting of experts two weeks ago to review the progress we have made thus far on these measures. This recent meeting concluded with an agreement on methodologies that can be used to measure capacity in fisheries from several different perspectives.

With these metrics, I hope that NMFS will be able to prepare quantitative assessments of capacity levels in all, or nearly all, Federally managed fisheries, just as we do for the status of stocks. I believe that this technical work is extremely important, because it will enable us, first, to develop plans and monitor progress in dealing with overcapacity, and, second, to assess the effectiveness of government actions, such as buybacks, to deal with this problem. Finally, NMFS has agreed in the FAO IPOA/capacity to reduce domestic subsidies that promote overcapacity, and this brings us to the second broad theme of this hearing. As we did with the capacity issue, it would be helpful to review briefly the evolution of NMFS" thinking on the subsidies issue.

SUBSIDIES IN THE FISHERIES SECTOR

Subsidies is a term of trade law that has traditionally been applied to a category of government measures that confer unfair and, under certain conditions, actionable adverse effects in international markets. Indeed, the single binding international agreement that disciplines subsidies, including subsidies in fisheries, is the 1994 World Trade Organization's (WTO) Agreement on Subsidies and Countervailing Measures. During the last decade, however, as concerns intensified about overfishing and overcapacity in world fisheries, international organizations, national governments and private groups became increasingly interested in the environmental, as well as trade, effects of subsidies. In the fisheries sector, the connection that received the greatest attention was the relationship between, on the one hand, subsidies provided to fishermen, and, on the other, unacceptably high levels of overfishing and overcapacity.

In the context of this broader debate, some governments and experts made the point that certain government payments that qualify as subsidies under the 1994 WTO subsidies agreement may have positive environmental effects. As an example, publicly funded buybacks of redundant fishing vessels and/or permits may be a subsidy, but, because they reduce excess capacity, don't promote production or increase trade, are also environmentally beneficial or at least benign, and are therefore "good" subsidies.

The recent domestic and international debate on subsidies in the fisheries sector has placed considerable emphasis on the distinction between "good" and "bad" subsidies, i.e., between subsidies that constrain capacity or enhance resources, and other subsidies that promote excessive levels of effort and capacity. Seen in this context, U.S. practice has evolved significantly during the last few decades. During the first decade or so after the FCMA, the United States Government funded a number of subsidies that did, explicitly or implicitly, promote higher levels of fishing effort and capacity. Some of these effort- and capacity- enhancing subsidies, such as loan guarantees, tax deferral programs, and fishery development grants, were administered by NMFS, while other subsidies were implemented by other Federal agencies, such as the Department of Agriculture.

During the last decade, NMFS has scaled back and redirected a number of these effort- and capacity-enhancing subsidies, placing relatively more emphasis on programs that reduce effort and capacity and that support sustainable resources. Publicly funded buybacks of surplus fishing vessels and/or their permits are the best example of this.

Finally, during the last several years, NOAA joined the Office of the United States Trade Representative in developing and promoting an international initiative on subsidies. Under this proposal, during the next global round of multilateral trade negotiations, World Trade Organization members will agree to phase out trade-distorting and environmentally harmful subsidies in fisheries. Such a global agreement, combined with improvements in management, would ultimately have a capacity-constraining effect. To promote this international initiative, NMFS has also played an active role in recent years in the preparation of various international studies of fisheries sector subsidies, for example, in FAO, the Organization for Economic Cooperation and Development and the Asia Pacific Economic Cooperation Forum.

GAO AND SFA–MANDATED REPORTS

With this background in mind, I would like to turn now to the two reports that are the subjects of this hearing: (1) the report issued last year by GAO on vessel buybacks, and (2) the 1999 Magnuson–Stevens Act-mandated report on the implications of subsidies and other Federal programs for the expansion and contraction of capacity in Federally managed fisheries.

• *THE GAO REPORT ON CAPACITY REDUCTION*

The first of these is the GAO report, Entry of Fishermen Limits Benefits of Buyback Programs, which was issued in June 2000. Essentially, this report assesses

three buyback programs in (1) New England groundfish, (2) Bering Sea pollock, and (3) Washington State salmon fisheries. These programs were funded under different laws, included a mix of grants and loans, and involved aggregate public costs of $130 to $140 million from 1995 to 2000. GAO's key finding is that the effectiveness of buybacks in fisheries can be hampered by:

- the entry of bought-out fishermen into other fisheries;
- the activation of latent permits in bought-out fisheries; and
- capital (input) stuffing, i.e., increased efforts and investments by fishermen who remain in bought-out fisheries.

The GAO report concluded that the buybacks administered in the New England groundfish fleet were less effective than the vessel and permit buybacks in the Alaska Bering Sea pollock and Washington State salmon fisheries. In summary, these three vessel and permit buyback programs had a mixed record as publicly funded measures to achieve reductions in fishing capacity. To improve the effectiveness of capacity reduction programs, GAO made a number of recommendations, of which we believe the most important were that:

- NMFS should make greater effort to measure harvesting capacity in more fisheries;
- the effectiveness of buyouts should be more systematically evaluated;
- buybacks must be somehow tailored to prevent post-buyback entry into other fisheries; and
- capacity reduction programs should be accompanied by management measures, such as cooperatives and other systems based on allocations to individuals or specific groups, that will address the "race to fish."

NMFS RESPONSE TO THE GAO REPORT

NMFS has already provided technical comments on the GAO report, which were appended (with GAO's responses to the NMFS comments) to the June 2000 report. In addition, the agency published in the Federal Register, on May 18, 2000, an interim final rule implementing Section 312 (b-e) (Fishing Capacity Reduction Program) of the Magnuson–Stevens Act, which explains in detail the agency's views on how to implement buybacks funded from both public and private sources. In this hearing, therefore, I would like to confine my comments to what are the most fundamental issues.

First, NMFS agrees that we need better definitions and measures of capacity and overcapacity in fisheries.

We also agree that NMFS should, to the degree that is practical, regularly monitor and assess the effects of completed buybacks. On this score, we point out that the NMFS Northeast Fisheries Science Center conducts such an annual report on the New England buybacks; that the pollock cooperatives issue reports with this type of information, to the North Pacific Fishery Management Council; and that Washington State reports on the salmon permit buybacks to the Washington State Fish and Wildlife Commission.

In addition, NMFS agrees that buybacks should be administered in ways that prevent the entry of bought-out boats in other fisheries. This is a complicated and technical issue. The circumstances of each buyback fishery would have to be examined separately. For example, the potential entry of bought-out vessels depends significantly on whether the buyback targets vessels, permits, or both.

Finally, we agree that, ideally, vessel and permit buybacks should be accompanied by changes in the basic management system that will lead to a better harmonization of fishing capacity with available resources. At the same time, we are compelled to note that such an approach to capacity reduction may require a time-consuming and politically contentious process.

As a general comment, NMFS welcomes the GAO report and agrees with most of its major findings, but also notes that buybacks are designed to provide timely assistance in a wide variety of different circumstances in distressed fisheries. Therefore, while we agree with GAO on most of its major points, we are also compelled to deal with these situations on a case-by-case basis.

- *THE MSA–MANDATED REPORT ON SUBSIDIES AND CAPACITY*

Among the many reports mandated by the Sustainable Fisheries Act amendments was the Federal Fisheries Investment Task Force Report, issued in July 1999. Essentially, the report was completed by a task force of 22 non–Government experts, representing all geographic regions and perspectives. It examined broadly the Federal role, through subsidies and other Government programs, in the expansion and contraction of harvesting capacity in Federally managed fisheries.

The task force looked at this issue historically, from the introduction of extended jurisdiction in 1977 to the present, and included a number of case studies on

capacity levels in specific fisheries. Just as important, the task force did not confine its study to NMFS subsidies and programs, but also examined the role of a wide variety of activities of other Federal agencies. Taking this broad view of the problem, the task force studied in some detail a number of issues that had not received much scrutiny, such as the roles of the U.S. Department of Agriculture lending programs in fisheries, the policies of the Small Business Administration, the effects on fisheries habitat of U.S. Army Corps of Engineer projects in the Mississippi delta and in the Florida Everglades, and the implications for fisheries investments of the Investment Tax Credit until its reform in 1986.

The task force paid considerable attention to NMFS programs, in particular the Fisheries Obligation Guarantee (FOG) and the Capital Construction Fund (CCF), which, among programs administered by NMFS, had the best documented effects on capacity levels in Federally managed fisheries. As a general observation, the task force report concluded that the FOG and CCF programs, in conjunction with other economic assistance measures and development policies administered by NMFS and other Federal agencies, had some capacity-enhancing implications for some U.S. fisheries in certain periods, but that these effects are difficult to measure precisely.

The FOG, which was transformed in 1996 into a direct loan program, no longer finances new harvesting capacity additions. However, the CCF does promote additions to capacity levels. It is noteworthy that the task force report includes a lengthy discussion of various ways in which the CCF program could be amended to solve this problem e.g., by permitting withdrawals from CCF accounts for purposes other than building new and refitting existing vessels; however, the task force did not agree on any specific reform proposal.

NMFS RESPONSE TO THE TASK FORCE REPORT

NMFS generally agrees with the findings and recommendations of the task force report. The report's historical focus, the treatment of programs implemented by all Federal agencies, the case study approach, and the discussion of subsidies to sectors other than fisheries (riverine navigation, land development, and hydroelectric power) were all interesting and welcome.

In addition, the chapters in the task force report on the concepts of capacity and subsidies incorporated recent work on these issues, including efforts supported by NMFS, and presented these themes in an engaging and thought-provoking manner.

Generally NMFS has, as much as its discretionary authority allows, dramatically reduced the scope of subsidies and other programs that enhance fishing capacity, and placed progressively much greater emphasis on subsidies and other programs that reduce capacity. Since 1997, NOAA has been working with the USTR on an international World Trade Organization initiative to reform trade-distorting and environmentally harmful subsidies.

The only major capacity enhancing NMFS-administered subsidy is the tax deferral program, the CCF. NMFS is willing to engage interested parties in a dialogue on the future of the CCF.

In conclusion, I believe that there must be a strong program to tailor fishing capacity to the availability resources if we are to maintain sustainable fisheries, the economic viability of the industry and the safety of the fleet.

Mr. Chairman, I appreciate the opportunity to testify before the Committee today and am prepared to respond to questions from Members.

NMFS RESPONSES TO FOLLOW–UP QUESTIONS FROM MAY 10, 2001 MAGNUSON–STEVENS ACT REAUTHORIZATION HEARING ON CAPACITY REDUCTION PROGRAMS AND SUBSIDIES ON FISHERIES

Questions submitted by Representative Jennifer Dunn

(1) Why does the Financial Services Program within the Department of Commerce continue to underwrite loans and generate guaranteed notes for each approved transaction when these loans can be made at no cost to the taxpayers by private institutions?

The Fisheries Finance Program (FFP) neither underwrites loans nor generates guaranteed notes. The FFP is a direct loan program. The FFP borrows its lending capital from the U.S. Treasury at an interest cost identical to the Treasury's cost of borrowing public

funds. The FFP then uses this lending capital to make loans to the fishing industry for authorized purposes. The fishing industry pays the FFP an interest rate equal to the Treasury rate plus 2%.

Although the previous Administration's budgets estimated that the FFP had a Federal Credit Reform Act (FCRA) cost equal to 1% of the principal amount of FFP loans, this Administration's budget for fiscal year 2002 more accurately estimates that the FFP's FCRA cost is a negative 15.66%. The latter estimate accurately reflects the FFP's historical performance.

(2) In 1996, the Financial Services program began making loans to individuals for Halibut/Sablefish Quota shares in the Alaska Fishery. As I understand it, transactions are funded directly from the U.S. Treasury at rates 2% above the like Treasury Instruments. This 2% is to cover Financial Services operating costs. Since private brokers and banks could work up the details and handle term financing with the U.S. Government's guarantee, why does the Department of Commerce need to be involved?

The FFP is the lender. The FFP, as noted above, borrows its loan capital from the U.S. Treasury. The FFP is a direct lender and does not guarantee private loans.

However, prior to the Sustainable Fisheries Act's (SFA) amendment of the FFP's authorizing legislation, effective October 11, 1996, the FFP generated its lending capital in the private institutional investment market (IIM) rather than borrowing its lending capital from the U.S. Treasury. The FFP did so by selling the fishing industry's promissory notes, with a 100% Federal repayment guarantee, in the IIM. Since the IIM does not assess commercial credit risks and the FFP bore 100% of the credit loss risk, the pre–SFA FFP necessarily assessed all fisheries credits whose repayment it guaranteed. The IIM is the same market from which the U.S. Treasury borrows public funds, and the pre–SFA arrangement functionally resulted in the FFP performing a function that the Treasury provides at less cost to the Government. The SFA amendment recognized this by requiring the FFP to borrow its lending capital from the Treasury rather than from the IIM. This resulted in a 1% reduction in the cost of borrowing public funds for fisheries lending purposes, and allowed the SFA to increase the FFP's lending spread from 1% to 2% without any additional interest expense to the FFP's fisheries borrowers.

(3) How is the Financial Services Program currently audited? Are these audits conducted under Federal Lending Regulations? If not, why not? Do you believe there needs to be third- party reviewing policies in place to make sure that the consumer and taxpayers are protected?

A nationally known private accounting firm annually audits all National Oceanic and Atmospheric Administration (NOAA) functions, including the FFP, pursuant to the Chief Financial Officer's Act of 1991. The audits conform to (1) Office of Management and Budget guidelines, (2) Department of Commerce guidelines, and (3) NOAA accounting policies. Every audit has, with respect to the FFP, been unqualified.

We believe the FFP's accounting and auditing practices fully protect consumers and taxpayers.

Mr. GILCHREST. Thank you very much, Dr. Hogarth.

Mr. John Dunnigan, welcome.

STATEMENT OF JOHN H. DUNNIGAN, EXECUTIVE DIRECTOR, ATLANTIC STATES MARINE FISHERIES COMMISSION

Mr. DUNNIGAN. Thank you, Mr. Chairman. It is a pleasure to be back before the Committee again.

I come to you today in a little bit different capacity than I usually do. I am the executive director of the Atlantic States Marine Fisheries Commission. The report I am here to talk about today is not a commission work product. Rather, when the Sustainable Fisheries Act was passed, the National Marine Fisheries Service contracted with our commission to provide staff services to support a number of the tasks that were required for the implementation of the new law and one of those tasks was to provide the staff support to the Federal Fisheries Investment Task Force that was mandated by Section 116(b) of the Sustainable Fisheries Act.

In looking at the law and deciding how to put this together, there were a couple of questions. The law is very broad in the way it set forth the job that needed to be done. The task force members, for example, asked themselves are we expected to make recommendations? And they concluded that given the nature of their charge and the investment that the Service had made in putting this group together that if they could find areas where they could make recommendations they really ought to do that.

That was one of the issues that they had to decide, just how broad a scope were they supposed to take to this problem and they chose, because of the importance of it, to try to be as broad as possible and provide the guidance that Congress would need.

There was also a question about the make-up of the panel. The statute only referred to interested parties and the Service decided that it wanted to have first of all, non-Federal people so that there would not be any question of bias from the National Marine Fisheries Service coming into the conclusions and recommendations, and secondly, that it needed to broadly represent fisheries' constituencies from across the country in all of the major constituency groups.

So we ended up with commercial fishermen, we ended up with recreational fishermen, we had representatives from the environmental community, we had lawyers, we had accountants, and we even had economists, which I think made a lot of sense for this task. But I think the point is it was a very broadly based group from all across the country that spent a lot of time in 1998 coming up with these recommendations.

Three of the members of the task force I believe are on the next panel—Gordon Blue, Scott Burns and Jim Kirkley—and they are among the people that put an awful lot of work into coming up with this document.

I think the task force report speaks for itself. We tried to make it readable. I would commend it to all of you. It is a very good summary and picture of the breadth of issues that are going to be involved when the Congress tries to deal with the question of Federal investment in the fisheries.

The report breaks down into two major areas. First of all, there is a discussion of concepts and one of the things that the task force found was that the basic conceptual underpinnings for this inquiry are not very well understood. We talk all the time about too many boats chasing too few fish and although that is an easy mantra to roll off your tongue, it is very hard to take that down and start doing some serious analysis about how that happens and what the implications of it really are.

We talk an awful lot about overcapitalization in the fisheries and, as a matter of fact, what we think we are probably talking about more often than not is overcapacity, and they are very different ideas. You need to look not only at the question of what is capacity but what is the effective utilization of the capacity that is available because just because capacity is there, that does not necessarily mean that it is going to be used all the time; that depends on a whole range of individual factors.

After dealing with these concepts, the report then goes in to look at a number of very specific programs. Just to highlight some of the significant ones, the Capital Construction Fund program is one that the task force probably spent most of its time on. I can tell you from what we heard from public hearings around the country that the existence of Capital Construction Funds and wondering where all this money is going to go is a significant worry within the commercial fishing industry and is something that needs to be addressed.

The task force looked at the Fisheries Obligation Guarantee program. It looked at the investment task credits that were available back in the early 1980's and there was a lot of sentiment, although the quantitative data was not really there to make this analysis, but there was a lot of sentiment on the task force, I think, that the availability of the investment tax credit and other tax programs that are no longer available were one of the great stimuli that really led to the build-up of the U.S. fishing industry in the 1980's.

We also talked about buyouts and let me just emphasize there that the task force really believed that it is important when Congress is dealing with buyout programs to focus on what it is you are trying to do. You need to have very clear and understandable objectives.

Mr. Chairman, the number one problem that the task force found in its analysis was that it is very difficult to do it because of the lack of data, the lack of quantified information for analysts to use in trying to come to some conclusions about how these things happen and what the impacts are. Most programs do not operate from the beginning with a sense of trying to understand what the impacts on fishing capacity are going to be and one of the things that we know we all need to build into these programs is a better sense of what the impacts are while they are being considered by the Congress.

The last point I am going to make, Mr. Chairman, is this task force worked very hard. None of them received a dime for the time that they put in on it. Twenty-two people made a major effort during 1998. I think they are proud of their work. I am proud that I was able to help them and I am glad that I was able to be here

today to bring this report to your attention. I would be glad to try to answer any questions. Thank you very much.

[The prepared statement of Mr. Dunnigan follows:]

Statement of John H. Dunnigan, Executive Director, Atlantic States Marine Fisheries Commission

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Good Morning. I am John H. Dunnigan, Executive Director of the Atlantic States Marine Fisheries Commission. Today, however, I come before you in a slightly different capacity. From 1997 to 1999, the Commission was contracted by the National Oceanic and Atmospheric Administration to complete a number of specific tasks required in connection with the implementation of the Sustainable Fisheries Act. One of these tasks was to provide staff support to the Federal Fisheries Investment Task Force that the Secretary of Commerce was required to establish under Section 116 (b) of that Act (codified as a note to Section 312 of the Magnuson–Stevens Fishery Conservation and Management Act, 16 U.S.C. 1861). Under this contract it was my privilege to serve as the facilitator for the Task Force as it carried out its business in 1998. And so I come to you to today to represent the Task Force and the work that it did in response to Congress's concern for this very important, complex and difficult issue. For the most part, the Task Force's report speaks for itself, and I wholeheartedly commend it to you. In preparing for this hearing I have taken the opportunity to go back over the report, and I believe that its perspectives are largely as valid today as when the report was issued two years ago.

Let me say at the outset that the Federal Fisheries Investment Task Force did not set out to assign blame, to find a "smoking gun," or to sound any alarms. It found that there are a lot of things that government does that affect investment in marine fisheries. These may be either good or bad, depending on one's perspective. But it is clear that the fishing investment implications of these decisions are not often well-understood or even considered ahead of time. In the end, I believe that all of the task force members would agree that we need a more complete and consistent consideration of the impacts of virtually all government policy on investment in fisheries.

STATUTORY PROVISIONS OF THE SUSTAINABLE FISHERIES ACT; FORMATION OF THE TASK FORCE

In 1996 the Congress enacted the Sustainable Fisheries Act (P.L. 104–297), which contained the most sweeping revision of Federal fisheries law since 1976. During the debates leading to passage of the Act, a common catchphrase referred to "too many fishermen chasing too few fish." Complicating the "too many fishermen" issue is the oft-made allegation that government programs have over the years contributed to overcapacity in marine fisheries. Thus, the Act, in addition to all of its many conservation and procedural provisions, included a provision for a Task Force to study the role of the Federal Government in investment decisions in fisheries managed under the Magnuson–Stevens Fishery Conservation and Management Act.

> STUDY OF FEDERAL INVESTMENT.—The Secretary of Commerce shall establish a task force comprised of interested parties to study and report to the Committee on Commerce, Science and Transportation of the Senate and the Committee on Resources of the House of Representatives within two years of the date of enactment of this Act on the role of the Federal Government in
>
> (1) subsidizing the expansion and contraction of fishing capacity in fishing fleets under the Magnuson Fishery Conservation and Management Act (16 U.S.C. 1801 et seq.); and
>
> (2) otherwise influencing the aggregate capital investments in fisheries.
>
> (Sustainable Fisheries Act, Section 116(b))

The language of the Act gave little guidance regarding the size or make-up of the task force, how the Congress expected it should operate, or what its final report should address. Officials at the National Marine Fisheries Service believed that the task force's work should proceed independent from the efforts of the agency in this area, in order to keep any agency biases from coloring the analysis and conclusions. They wanted the report truly to be the task force's work product. NMFS also believed that the task force should broadly represent the various marine fisheries constituencies across the entire country. After a national solicitation of interest, NMFS created a task force that consisted of twenty-two extremely knowledgeable and experienced individuals. Task force members came from every region of the country, including the Western Pacific. It included individuals from commercial fisheries, rec-

reational fisheries, Regional Fishery Management Councils, and the academic community. It included fishermen, economists, lawyers and an accountant. Throughout the deliberations, all of the task force members stayed engaged and contributed significantly to the final product. The members of the task force are listed in Appendix I to my testimony.

The task force decided to operate proactively, with task force members contributing significantly to its work. Rather than organize itself with a chair, the task force decided to rely on the staff for support, and asked me to facilitate the meetings. The task force operated primarily through a series of six meetings, held throughout the country between January and October, 1998. Public hearings were conducted in connection with four of the meetings.

CONCEPTUAL ISSUES: CAPACITY, CAPITALIZATION AND SUBSIDY

The task force noted from the outset that many of the basic concepts that are involved in any inquiry into the role of government in affecting fishing capacity and capital investments are still not well-understood; and at the same time are conceded to be very difficult to measure. "Capacity" can be looked at in two ways: 1. the potential level of landings that a given vessel or fleet is capable of producing; or 2. the potential level of landings that is consistent with some economic or social goal or objective. "Capacity utilization" relates the landings in a fishery to either the maximum potential output or an optimum output based on societal goals. "Capitalization" refers to the investments that have been made in capital stock over time. Each of these concepts is relevant to the concern for investment in marine fisheries, but each is different from the others and carries its own implications for policy. The problem is that the public discussion tends not to distinguish these concepts, and this muddies the debate. We often hear about "overcapitalization," when the problem being discussed relates more to problems of capacity or capacity utilization. The problems presented by this type of analysis are particularly vexing with regard to recreational fisheries, which are very hard to study from a capacity standpoint, but which obviously have important impacts on conservation.

The task force found a similar problem when addressing subsidies. It is not always clear or commonly accepted what constitutes a subsidy. The task force believed that since it had a very broad charge from Congress, it should take a broad look at the question of subsidies. It therefore defined a subsidy, for the task force's purposes, as any government action (or inaction) that potentially modifies (by increasing or decreasing) the potential profits earned in the short-, medium-, or long-term. The task force developed a comprehensive categorization of subsidy types, recognizing that many of these do not exist in the United States. This is included as Appendix II to this testimony. The task force took the view that not all subsidies should be viewed per se as bad. Whether a particular subsidy is good or bad is a societal, political judgment. However, in evaluating each subsidy separately, all of the costs, benefits and impacts of the subsidy must be clearly understood.

In general, members of the task force believed that measuring and evaluating the circumstances that affect investment in marine fisheries are very complex, little understood, and even more difficult to quantify. Public debate of these issues requires a more complete grasp of the fundamental concepts that are at play here; and also requires a much better way of measuring the various factors that influence the analysis.

ROLES OF GOVERNMENT INFLUENCING INVESTMENT

The task force looked into a number of government programs that influence investment in marine fisheries. Underlying its broad approach to these was its analysis of the role of government in influencing fisheries habitat. When government makes decisions that allow for the degradation of fisheries habitat, the capacity in the affected fisheries becomes unusable. Pacific Northwest salmon, the Florida Everglades, and Louisiana's coastal wetlands were cases that were studies for their effects on investment in fisheries.

Perhaps the most animated discussions the task force had related to the Capital Construction Fund. Under CCF, fishermen can defer taxes on profits from fishing if they are saved for a specific purpose—to purchase or reconstruct a fishing vessel. The program has a dual purpose—to support the U.S. shipbuilding industry, and to provide for the accumulation of capital that would allow U.S. fishing fleets to become and continue to be modern and competitive. There is a clear perception in the fishing industry that existing CCF account balances are a major problem today, creating too much pressure to make new capital investments in fisheries at a time when they are perceived not to be necessary. The task force came to a number of conclusions and recommendation about the CCF program, although they were not

supported by all task force members. These are included as Appendix III to this testimony.

The task force also extensively considered other tax policies that affected growth in fishing capacity in the 1970s and 1980s, most notably the investment tax credit. Many of these, including the ITC, were repealed by the 1986 tax reform legislation. Thus, while the Task Force members believed that these policies were a major contributor to the inflows of capital to many fisheries, if not the single most important factor in overcapacity, it appears that there is little that anyone could or should do today in response to these programs.

The task force studied the Fisheries Obligation Guarantee program. Under this program, the United States guarantees a loan for a fishing vessel, which improves the credit terms for the fisherman. The program is now known as the Fisheries Financing Program. The conclusions of the task force for this program are included as Appendix IV.

In the past few years there have been a number of governmental efforts to remove capital from the fishing industry through buyback programs. The task force concluded that these programs, while promising, must be carefully designed and implemented. The efficacy of buyback programs needs to be looked at in the context of the current fisheries policies for the affected fisheries. Major problems in all buybacks are latent effort and leakage (i.e., vessels who sell back their permits in a fishery simply have their effort diverted to other fisheries). Policy makers should also be concerned about the effect these programs have even while they are being discussed and developed. What is essential is that buyback programs be designed carefully with clear objectives, and understanding the likely responses of the fishing firms that will be affected. This is true whether the program is funded by government, by industry, or by some combination of the two.

The task force considered the Wallop–Breaux program and its effects on recreational fisheries. Although the program involves no net cost to the Federal Government, by improving recreational fisheries, their habitat, and access to them, the Wallop–Breaux program intends to make recreational fishing more attractive. Unfortunately even basic concepts of fishing capacity and what it means to recreational fisheries are not very well understood. The Task Force recommended that NMFS and USFWS place greater emphasis on studies of recreational fisheries, including capital, capacity and fishing effort; and encouraged state fish and wildlife agencies to use their Wallop–Breaux funds to study these matters as they are reflected within the states.

The task force also considered a number of other programs but concluded that they were of lesser importance in influencing aggregate capital investment in the fisheries. These included: disaster relief, Small Business Administration, Economic Development Administration, the farm credit system, fisheries development programs (including marketing and promotion), the Saltonstall–Kennedy Act program, USDA food programs, the USDA school lunch program, the Foreign Agriculture Service, the former National Fish and Seafood Promotion Council, and the Sea Grant College Program. The Task Force concluded that Federal investment in fisheries development, marketing and promotion programs have had a direct role in the build up of capital and capacity in some U.S. fisheries. This impact, however, is impossible to quantify in any exact way. The task force members believed that the Federal Government should limit the funding of such programs consistent with the conservation oriented national policy goals. In particular, priorities for S–K grant funding and other Federal marketing, research, and development programs should be set to avoid exacerbating the current overcapacity problem now facing the nation's fisheries.

CONCLUSION

As I said at the beginning, Mr. Chairman, the task force did not set out to resolve questions relating to the government's involvement in influencing capital investment in marine fisheries; but rather to clarify and explicate these issues. Resolution of many of these issues is properly within the policy discretion of the Congress and the Administration. These will be difficult issues to consider and make decisions upon. The task force was mostly concerned that the fisheries investment issues get proper and well-informed consideration.

One issue deserves special attention. Throughout its proceedings and running as a theme throughout its report, the task force constantly came up against data limitations. The available data are simply not adequate to permit proper empirical analysis of the various government programs that affect capacity in the fishing industry. The task force recommended that, whenever legislation is passed to establish or fund programs affecting the fishing industry, part of the mandate and budget au-

thorization should place proper emphasis on the generation of adequate data to permit the quantitative evaluation of the capacity and subsidy effects of the program.

It was a personal pleasure for me to work with the members of the Federal Fisheries Investment Task Force. They were knowledgeable and diligent, and made great personal sacrifice to contribute to the work that Congress asked be done. The task force's relationships with the National Marine Fisheries Service were on the whole excellent. The important thing about the task force's report is not so much the questions it answers, but the issues it explores. It contains much food for thought, and lays out a blueprint for analyzing the public policy implications of the Federal Government's role in investment in the marine fisheries. It is a complex issue, and I know I speak for all of the members of the task force in thanking the Congress for creating this study; and in urging you consider this report thoughtfully.

Mr. Chairman, thank you for the opportunity to be here today. I would be pleased to try to answer any questions.

APPENDIX I.

Members of the Federal Fisheries Investment Task Force

Gordon Blue, Sitka, Alaska
Theo Brainerd, Silver Spring, Maryland
Priscilla Brooks, Boston, Massachusetts
Ralph Brown, Brookings, Oregon
Scott Burns, Washington D.C.
Ed Ebisui, Wahiawa, Hawaii
Tom Hill, Gloucester, Massachusetts
Robert Jones, Tallahassee, Florida
Walter Keithley, Baton Rouge, Louisiana
Jim Kendall, New Bedford, Massachusetts
James Kirkley, Gloucester Point, Virginia
Peter Leipzig, Eureka, California
Vishwanie Maharaj, Charleston, South Carolina
Bryce Morgan, Seattle, Washington
Robert Palmer, Tallahassee, Florida
R. Bruce Rettig, Corvallis, Oregon
Ricks Savage, Berlin, Maryland
William E. Schrank, St. John's, Newfoundland
Barbara Stevenson, Portland, Maine
Borden Wallace, Empire, Louisiana
Michael L. Weber, Redondo Beach, California
Donald C. Woodworth, Washington D.C.

APPENDIX II.

CATEGORIZATION OF SUBSIDY TYPES

The Task Force attempted to establish an exhaustive categorization of subsidy types in order to help structure its analysis, recognizing that many of these do not exist in the United States.

A. Direct government payments related to fisheries

1. Direct expenditures of the government to the fishing industry which lower costs and therefore potentially increase the industry's profits are subsidies.
2. Direct payments can take many forms and serve many purposes, such as the health care assistance provided to fishing families in New England, or vessel buybacks.
3. Gear conflict compensation programs that pay fishermen for gear losses due to foreign or U.S. fishing operations, or the oil industry, as subsidies.
4. A compensatory subsidy arises when the United States pays foreign governments to permit U.S. vessels to fish in their waters.
5. The payment by the United States of fines and penalties incurred by U.S. fishermen to foreign governments would be a subsidy.
6. Infrastructure expenditure directly relating to fisheries, such as fishing port facilities, fish unloading facilities, or fishing vessel haulout or maintenance facilities, are subsidies.
7. Unemployment insurance paid to fishermen would constitute a subsidy.
8. Direct government infusions of equity capital into fisheries companies would be a subsidy.

B. Government fishery loans, loan guarantees and insurance

1. Mortgage insurance for the building or refitting of fishing vessels would be a subsidy.
2. Loans made to the fishing industry to finance the replacement and operation of fishing vessels, either directly by the government or indirectly under government guarantee, at less than market rates of interest, or on terms, such as amortization periods, that are more advantageous to the firm than those otherwise available, are subsidies.
3. Loans to allow crew members of small fishing vessels to purchase individual fishing quota shares are subsidies.

C. Implicit payments to, or charges against, the fisheries industry

1. Government supported marketing efforts, where the cost is not charged back to the industry, are subsidies.
2. Programs to enhance fish stocks through hatcheries or improvements in fish habitat are subsidies.
3. Government expenditures in support of a fishery, other than direct payments to the fishery, or loans or loan guarantees, which could be, or in other jurisdictions are, recovered from the fishing industry are subsidies.
4. Costs imposed by government regulations or legislation are profit-reducing, and therefore are negative subsidies.
5. Government technology transfer programs are positive subsidies in that they reduce the cost of introducing new gear.

6. Loan guarantees to U.S. firms making investments in high-risk countries, such as those provided by the Overseas Private Investment Corporation, are subsidies to the extent that the participation and sponsorship of the U.S. government is essential to the success of the program.

D. Price support programs affecting fisheries

1. Price support programs that affect fisheries through explicit government mandates that raise prices to consumers, for instance, through officially sanctioned marketing boards or through structures that support minimum prices, are subsidies.
2. Tariffs are a traditional method of profit enhancement that raise the domestic price of competing foreign products, therefore allowing domestic producers to charge higher prices; and are subsidies.
3. Embargoes work as tariffs do to keep the prices that domestic producers can charge high.

E. General programs that affect fisheries

1. Dredging and construction projects of the U.S. Army Corps of Engineers may affect the profits of the fishing industry, and therefore are subsidies to the fishery.
2. Edits
3. Infrastructure expenditures that are not targeted to fisheries but which provide an advantage to the fishery, e.g., port facilities, are subsidies.
4. Payments for disaster relief to compensate fishermen are subsidies.
5. Aid from the Small Business Administration, the Economic Development Administration, the Farm Credit Administration and similar programs provide subsidies.
6. When the government subsidizes activities in non-fishing industries, the effects may negatively (or occasionally positively) affect the profitability of fishing firms; and thereby comprise a negative (or positive) subsidy to the fishery.
7. When the government collects a tax and distributes the proceeds for a public purpose (e.g., the Wallop-Breaux program), to the extent that the distributions increase profits in firms there is a subsidy, even if there is no net cost to the government.

F. Tax policies

1. Fuel Tax rebates to the fishing industry, to the extent that fuel tax revenues accrue to general government revenues, would be subsidies.
2. Programs such as the Capital Construction Fund, which permit fishing vessel owners to defer income taxes, are subsidies, as are allowances for accelerated depreciation.
3. General investment tax credits affect profits and fisheries capitalization even though they are not targeted specifically to fisheries.

The Task Force believes, however, that this all-encompassing list should not imply that any of these types of programs do not serve a valid important public interest. Rather, it is important in evaluating these programs to understand the role that the subsidy plays and make decision regarding the utility of the programs accordingly.

APPENDIX III.

TASK FORCE VIEWS CONCERNING THE CAPITAL CONSTRUCTION FUND

The predominant view of task force members (14 of 22 members) favored the following concerning the Capital Construction Fund Program:

1. The Task Force concludes that CCF has contributed to capital investment in US fisheries. It is however, impossible to measure the impact of CCF with any precision because of a lack of adequate data. The task force recommends that any revised CCF legislation require a data gathering operation to permit the proper evaluation of the revised CCF program.

2. The Jones Act, by requiring the building and refurbishing of US fishing vessels in the US, imposes a negative subsidy on fisheries. In the interest of fairness to US fishermen, positive subsidies to offset the negative subsidies are necessary. The CCF program should be modified to provide this offset, or a new program can be implemented to accomplish the purpose. Alternatively, the appropriate part of the Jones Act can be modified.

3. The SFA establishes the framework of current fisheries policy with an emphasis on conservation, and a mandate to limit fish catching capacity to levels consistent with the sustainability of fish stocks. CCF should therefore no longer be permitted to finance the building, rebuilding or refitting of fishery vessels other then the offset described in # 2 above.

4. Fishing vessel owners have been placing money in CCF funds to finance the building, rebuilding and refitting of fishing vessels. Since under # 3 above, such activities should no longer be possible with CCF funds, fairness requires that holders of CCF accounts be permitted to withdraw any portion of their CCF funds under favorable tax treatment, such as the funds being taxed at their CCF holder's current marginal tax rate. The withdrawal of funds under these favorable conditions should be a one-time option, with Congress setting both a deadline date for making the election and a cut-off date defining those funds which can be withdrawn under these favorable conditions.

5. In addition to the offset of # 2, CCF funds may be used for such purposes as fishing vessel safety upgrades, training, research, buyouts, IRA rollover, quota purchases, and other projects that do not tend to increase fishing capacity.

6. Congress should set a limitation on the maximum amount any firm or individual can accumulate in CCF funds.

7. In order to keep it from being recycled into the fishery, vessel buyback money cannot be put into a CCF account, except:
   a. In the case of a qualified, one-time withdrawal in #4; or
   b. When the funds are rolled into an IRA as provided in #5.

APPENDIX IV.

CONCLUSIONS CONCERNING FISHERIES OBLIGATION GUARANTEE / FISHERIES FINANCING PROGRAM

The Task Force came to a number of conclusions and recommendation concerning the FOG program:

1. As a general rule, lack of private financing was not a limiting factor in expanding and modernizing fishing fleets. Rather, FOG provided a more favorable financial basis for qualified fishermen to do so.

2. Together with investment tax laws and such policies as Americanization of fisheries within the U.S. exclusive economic zone, FOG has increased investment and fleet capacity.

3. FOG's impact has changed over time.

4. FOG's impact has largely been concentrated in a few regions and fisheries.

5. The main benefit of the program to a borrower is the longer amortization period that risk-averse private lenders will not assume.

6. The scope of the FOG/Fisheries Financing Program should change to reflect the new direction of federal fisheries policy. Congress should end support for the construction and reconstruction of vessels. Instead, the program should focus on activities that directly assist in the transition toward reduced fleets, as through vessel buyback programs, bycatch reduction and improved gear selectivity.

7. Congress and NMFS should establish a process to consider the future role of FOG in financing vessel construction or reconstruction, particularly in underutilized fisheries where overcapacity is not a problem. These future uses should be crafted in a precautionary manner that is consistent with regional conservation and management objectives.

Mr. GILCHREST. Thank you very much, Mr. Dunnigan. They may not have received a dime but we will make good use of that information and hope that that is some minimal reward.

Mr. Barry Hill, welcome, sir.

STATEMENT OF BARRY T. HILL, DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT, U.S. GENERAL ACCOUNTING OFFICE

Mr. HILL. Thank you, Mr. Chairman. I am pleased to be here today to discuss the October 1999 and June 2000 reports that we prepared for this Committee on the costs and effectiveness of the recent fishing buyback programs and if I may, I will just briefly summarize my prepared statement and submit the full statement for the record.

As the Subcommittee is well aware, fish populations in many commercial fisheries are declining, resulting in a growing imbalance between the number of vessels in fishing fleets and the number of fish available to catch. Federally funded fishery buyback programs are one tool available for managers to bring the number of vessels and the number of fish back into balance.

Our reports focussed on the 10 principal buyback programs that have taken place in the United States commercial fishing waters since 1976. These buybacks were expected to cost a total of about $160 million when completed and were financed from Federal, state and private sources. About $140 million or 87 percent of these costs are for buybacks implemented since 1995, which is an indication of the increasing use of the buybacks.

In summary, Mr. Chairman, we found that the buyback programs need to be carefully designed if they are to be effective in helping to ensure sustainable fisheries. We believe recent U.S. experience demonstrates three important lessons that should be factored into the design of any future buyback program.

First, gains from a buyback will erode unless the buyback is designed to restrict fishermen from using previously inactive vessels or permits to reenter the fishery. Our June 2000 report examined the capacity gains from buybacks in three diverse fisheries: New England groundfish, Bering Sea pollock, and Washington State salmon. These buybacks initially removed from 10 to 24 percent of each fisheries' capacity. However, the prospects for maintaining these gains is different for each of these fisheries largely because of each buyback's design.

For example, while the New England buyback initially removed 79 vessels from the fishery, because there was no provision to prevent fishermen from using inactive vessels and permits, 62 previously inactive vessels began catching groundfish after the buyback. These fishermen have begun to erode the capacity reductions made by the buyback, replacing fishing capacity by as much as two-thirds of that purchased through the buyback.

In contrast, capacity removed from the Bering Sea program has not returned, in part because the buyback legislation prevented the entry of additional fishing vessels.

The second lesson focuses on the economic forces that unless addressed, drive fishermen who remain after a buyback to increase

their fishing capacity and this is commonly referred to as the race to fish.

Buyback programs by themselves do not address the root cause of overfishing. In most fisheries fishermen have an incentive to increase their fishing capacity to catch fish before someone else does. This race to fish leads fishermen to invest in more fishing capacity, such as adding fishing gear, increasing their time at sea and number of crew, and replacing older vessels with bigger and more productive ones in order to catch as many fish as quickly as possible. Left unchecked, this race to fish will lead to overall higher costs and lower profits, economic hardship for fishermen and harm to fish populations and habitat.

The Bering Sea pollock buyback addressed this issue by facilitating the creation of a fishing cooperative by the owners of the remaining trawlers. This cooperative allocated a specific amount of fish to each cooperative member, thereby allowing members to catch their individual fish allocations at their own pace at lower capital and operating costs and with increased product quality. These changes resulted in higher profits and longer fishing seasons for the remaining factory trawlers.

The third lesson is that evaluating the results of a buyback should be built into the design of any future programs. Measuring and evaluating results can identify important lessons that can improve the effectiveness of future buybacks. Despite these benefits, the Federal Government has done little to evaluate whether recent buyback programs achieve their intended benefits.

In June 2000 we reported that the National Marine Fisheries Service had made limited efforts to evaluate whether buyback programs had achieved their intended benefits. NMFS was mandated by the Interjurisdictional Fisheries Act to evaluate the effects of the New England buyback program; however, aside from this mandated effort, NMFS has not evaluated the effectiveness of any other buyback program.

Prudent management suggests that buyback programs be evaluated to identify lessons learned that might help improve future programs. Planning for such evaluations, including developing measures to evaluate program results, should be an important part of the design of future programs.

Mr. Chairman, this concludes my statement and I would be happy to answer any questions that you or other members may have.

[The prepared statement of Mr. Hill follows:]

Statement of Barry T. Hill, Director, Natural Resources and Environment, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our October 1999 and June 2000 reports on the costs and effectiveness of recent buyback programs for specific U.S. commercial fisheries.[1] As the Subcommittee is well aware, fish populations in many commercial fisheries are declining, resulting in a growing imbalance between the number of vessels in fishing fleets and the number of fish available to catch. Federally funded fishery buyback programs are one tool available for managers to bring

[1] Commercial Fisheries: Information on Federally Funded Buyback Programs (GAO/RCED–00–8R, Oct. 20, 1999) and Commercial Fisheries: Entry of Fishermen Limits Benefits of Buyback Programs (GAO/RCED–00–120, June 14, 2000). A fishery is one or more stock (defined as one species or several species in a geographical area) of fish managed as a group.

the number of vessels and the number of fish back into balance. In response to this growing imbalance, the Federal Government has provided $140 million since 1995 to purchase fishing permits, fishing vessels, and related gear from fishermen, thereby reducing the capacity of fishermen to harvest fish. Generally, the government designed these buybacks to achieve multiple goals, such as reducing the capacity to harvest fish, providing economic assistance to fishermen, and improving the conservation of fish. Our two reports focused on the principal buyback programs that have taken place in U.S. commercial fishing waters since 1976.

In summary, Mr. Chairman, we found that buyback programs need to be carefully designed if they are to be effective in helping to ensure sustainable fisheries. For example, as we reported, recent U.S. experience shows the following:

- If buyback programs are not accompanied by other measures that reduce incentives to reenter a fishery, capacity reductions resulting from buybacks will erode. Unless a buyback program prevents it, fishermen can use previously inactive vessels or permits and reenter the buyback fishery.
- Buyback programs, by themselves, do not address a root cause of overfishing, which is called the "race to fish." In most fisheries, fishermen have an incentive to increase their fishing capacity to catch fish before someone else does or use their existing capacity more intensely.
- Plans for evaluating the results of buybacks should also be considered when these programs are being designed. Measuring and evaluating results can identify important lessons that can improve the effectiveness of future buybacks. The Federal Government has done little to evaluate whether recent buyback programs have achieved their intended benefits.

Background

The management of commercial fishing waters in the United States is divided among coastal states and the Federal Government. Coastal states issue permits and develop and enforce regulations for fishing in waters that are near their shores. In areas outside state jurisdiction, the National Marine Fisheries Service (NMFS), within the Department of Commerce, is responsible for issuing permits and developing and enforcing regulations for harvesting fish. NMFS works with eight Federally established regional councils consisting generally of Federal, state, and private-sector representatives to develop plans and propose measures that attempt to balance the economic benefits of fishing with the need to protect the environment.

Commercial fishing is a major industry in this country. In 1998, commercial fishing vessels in U.S. marine waters landed 9.2 billion pounds of commercial fish in domestic ports, with an estimated value of $3.1 billion. However, also in 1998, the Federal Government reported that of the 300 species of fish for which it had data, 100 were either overfished or approaching an overfished condition.

U.S. Buyback Programs' Experiences

As of our October 1999 report, the 10 buybacks implemented since 1976 were expected to cost a total of about $160 million, when completed, from Federal, state, and private sources. About $140 million (87 percent) of these costs are for buybacks implemented since 1995, an indication of the increasing use of buybacks. The remaining $20 million were incurred during the 1970s and 1980s for programs to assist fishermen in the Northwest salmon industry.

The features, costs, and objectives of the buybacks vary.

- The most costly buyback, involving Bering Sea pollock, began in 1998 under the authority of the American Fisheries Act of that year. The act required NMFS to purchase 9 of 30 factory trawlers[2] working in the fishery and their associated fishing permits. The total cost of the buyback was $90.2 million, with $15.2 million from Federally appropriated funds and the remaining $75 million from a Federal loan to Alaskan pollock fishermen to buy large fishing vessels. The loan is repayable over 30 years based on a fee tied to the amount of pollock caught by those left in the fishery.
- The next most expensive buyback, involving New England groundfish, took place in two phases between June 1995 and May 1998 under the authority of the Emergency Supplemental Appropriations Act of 1994 and the Interjurisdictional Fisheries Act. NMFS spent $24.4 million to remove 79 fishing vessels, the fishing permits that allowed these vessels to catch groundfish, and all other Federal fishing permits associated with these vessels. NMFS also required that the vessels it purchased be scrapped, sunk, or transferred to activities other than fishing.

[2] A factory trawler catches fish by dragging a large net through the water and then processes the fish onboard.

- The longest running buyback effort began in 1976 and involves five separate programs since 1976 for reducing the number of salmon fishing vessels and fishing permits in the Northwest. Three of the programs, costing a total of $20.5 million, mostly in Federal funds, were in effect between 1976 and 1986 under the Interjurisdictional Fisheries Act. The remaining two programs, costing a total of $14 million, were implemented from 1995 through 1998 under this act and the Magnuson–Stevens Fishery Conservation and Management Act. All five of the programs were administered by the state of Washington, which purchased state fishing permits. One of the programs also purchased vessels, while another also paid some vessel owners not to commercially fish for salmon for 10 years.
- Other buybacks have involved efforts to reduce the number of Texas state shrimp fishing permits in the Gulf of Mexico and to eliminate commercial crab fishing in some parts of the Glacier Bay National Park and Preserve in Alaska. These buybacks cost a total of about $10.4 million, mostly in Federal funds.

Lessons Learned From Recent Buybacks

We believe recent U.S. experience demonstrates three important lessons that should be factored into the design of any future buyback program. The first lesson is that, unless a buyback is designed to restrict reentry of fishermen, gains from a buyback will erode. Our June 2000 report examined the capacity gains from buybacks in three diverse fisheries New England groundfish, Bering Sea pollock, and Washington State salmon. These buybacks initially removed from 10 to 24 percent of each fishery's respective capacity. However, the prospects for maintaining these gains is different for each of these fisheries, largely because of each buyback's design. For example, while the New England buyback initially eliminated vessels from the fishery, additional vessels subsequently became active because the buyback did not take steps to prevent fishermen from using previously inactive vessels and permits. We found that the $24.4 million New England buyback removed 79 vessels; however, because of the number of unused fishing permits in the fishery, 62 previously inactive vessels began catching groundfish after the buyback. These fishermen have begun to erode the capacity reductions made by the buyback, replacing fishing capacity by as much as two-thirds of that purchased through the buyback. In contrast, capacity removed through the Bering Sea program has not returned, in part, because the buyback legislation prevented the entry of additional fishing vessels. With respect to the recent Washington State programs, while no steps were taken to prevent additional fishing vessels from entering the fishery after the buyback, significant declines in salmon stocks have made this impractical and fishing capacity has declined. In some cases, however, this capacity has shifted to fisheries in other states.

The second lesson focuses on the economic forces that, unless addressed, drive fishermen who remain after a buyback to increase their fishing capacity, called the "race to fish." This race leads fishermen to invest in more fishing capacity, such as adding fishing gear, increasing their time at sea and number of crew, and replacing older vessels with bigger and more productive ones in order to catch as many fish as quickly as possible in an attempt to maximize their individual incomes. Economists conclude that left unchecked, this race to fish will lead to overall higher costs and lower profits, economic hardship for fishermen, and harm to fish populations and habitat.

The Bering Sea pollock buyback addressed the race to fish that had previously existed among factory trawlers by facilitating the creation of a fishing cooperative by the owners of the remaining trawlers. This cooperative was designed to eliminate the race to fish by assigning a specific amount of fish, or an allocation, to the cooperative, which divides the allocation among its members. Because of this allocation, members of the cooperative have no incentive to expand fishing capacity to catch the available fish before someone else does, as they have in another fishery. Members are able to catch their individual fish allocations at their own pace, at lower capital and operating costs, while increasing product quality. These changes resulted in higher profits and longer fishing seasons for the remaining factory trawlers.

The third lesson is that evaluating the results of a planned buyback should be built into the design of any future programs. In June 2000, we reported that NMFS has made limited efforts to evaluate whether buyback programs have achieved their intended benefits. As required by the Interjurisdictional Fisheries Act, NMFS evaluated the effects of the New England buyback program on fishing capacity. Aside from this congressionally mandated effort, however, NMFS has not evaluated how any other buyback programs have affected fishing capacity. Prudent management suggests that buyback programs be evaluated to identify lessons learned that might

help improve future programs. Planning for such evaluations, including developing measures to evaluate program results, should be an important part of the design of future programs.

Actions Recommended in Our Previous Report

Mr. Chairman, buyback programs can and should be designed to be more effective. In our June 2000 report, we recommended that the Secretary of Commerce direct NMFS to

- design future buyback programs to (1) restrict buyback participants from entering a fishery that has fishing capacity problems ; (2) restrict the use of previously unused fishing vessels and permits in a buyback fishery with such problems; and (3) identify mechanisms to minimize the incentives to increase fishing capacity in a buyback fishery;
- develop performance measures for buybacks that relate to program goals and broader legislative goals, such as the need to better manage fishing capacity and sustain fish stocks; and
- evaluate the results of future buyback programs against the performance measures.

The Department of Commerce generally agrees with our recommendations that it should design future buyback programs to take into account these entry and evaluation issues. Since our report, the Department has continued initiatives to assess capacity levels in Federally-managed fisheries. For example, the Department issued a preliminary report in March 2001 that provides qualitative assessments of capacity in domestic fisheries. In addition, buyback proposals being developed by industry and/or NMFS are considering various approaches to address issues raised in our report. This week NMFS started a series of public meetings on its proposal for a $10 million permit buyback for the Northeast groundfish fishery, which includes a provision intended to discourage reactivation of previously inactive permits.

This concludes our statement. We will be happy to respond to any questions from you or other Members of the Subcommittee.

Mr. GILCHREST. Thank you very much, Mr. Hill.

I guess I will start with you, Mr. Hill, first. The buyback—you mentioned two different buyback programs. I guess the first one was with the New England Council and the second one was in the North Pacific Council. The Bering Sea buyback apparently worked because of certain restrictions and the development of a co-op and the buyback program in New England did not work because people got back into a different fishery.

Mr. HILL. That is correct.

Mr. GILCHREST. Can the Bering Sea buyback program be, in your judgment, replicated in different areas around the country in different fisheries?

Mr. HILL. I do not think there is a cookbook approach to any of these buybacks. I think you have to look at the characteristics of the fishery and the situation you are dealing with and you have to tailor-make these buyback programs based on what your particular goals are and what you are trying to achieve at that fishery.

There are certain elements of the Bering Sea buyback, though, that I think are inherent and should definitely be considered and encouraged in most buyback programs and one of those is certainly to ensure that the capacity you are removing is not going to return to the fishery. I mean that is the whole purpose of this. You are trying to take the capacity out of the fishery. If you allow the fishermen to either buy other vessels or use latent capacity—that is unused permits that are existing in the fishery—to come back in and fish, you are basically eroding whatever benefits you have achieved through the buyback.

Mr. GILCHREST. Mr. Dunnigan, I have not read your report yet but the early statement you made was that, and I do not know if

I wrote this down correctly, the basic underpinnings of the task force were not clearly understood for an assessment of the investment in the buyback program. Is that a fair paraphrase of what you said?

Mr. DUNNIGAN. The point I was trying to make, Mr. Chairman, was that the statute was not very specific in terms of what Congress was looking for out of this report. It just said that the task force should look into the role that the government has played in influencing investment, capital investment in the fisheries. That could be a very broad charge or it could be a very narrow charge.

The task force decided that we would be better off taking the broader approach. What that meant was the report covers a lot of things. So rather than answer a lot of questions, I think what you find in the report more is a blueprint for how to go about analyzing and looking at these issues as they come back before the Congress.

It is an interesting question, for example, on subsidies. What is it that constitutes a subsidy? Is it just when the government gives somebody a check for a boat loan or is it something broader than that? And the task force took a very broad approach, that anything that affects profits of an individual firm could be viewed as a subsidy.

So you will find there are a lot of things in here that most of us would not have considered subsidies—the Wallop-Breaux program, for example, but we felt it was important to take the broad approach.

Mr. GILCHREST. In your broad approach did you come close to seeing the situation that Mr. Hill just described in the buyback program between the North Pacific and the New England fisheries?

Mr. DUNNIGAN. When the task force was meeting the North Pacific buyback was not all put together.

Mr. GILCHREST. I see.

Mr. DUNNIGAN. So we really did not have an opportunity to consider that. We spent a lot of time looking at the buyback programs in the Northeast, as well as those for salmon in Washington and Oregon.

I think the major conclusion that the task force members came to is similar to what Mr. Hill and Dr. Hogarth have both said and that is that it is important when you get into these programs to have a very clear idea of what it is you are trying to do.

The Service told us, for example, that in the Northeast program when they first went at it they were not there to remove fishermen; they decided they wanted to try to remove vessels. Well, that has all kinds of implications for how you do your program and for what you expected to get out of it. And I think that that is one of the things that they learned, that it is very important to go in up front with a very clear idea of what it is you are trying to do.

Mr. GILCHREST. Dr. Hogarth, do you think it is a good idea for us in the reauthorization vehicle to, within certain flexible parameters, give clear specific guidelines or build into the statute some way to create a buyback program and using the example that Mr. Hill used between the Bering Sea and New England, to frame that discussion about capacity, about boats, about quotas for fishing, and include in that, I guess, the root cause of the overcapacity?

Would you suggest that we put into the reauthorization some language dealing with investment and buybacks?

Dr. HOGARTH. That is somewhat of a tough question. I personally think that there have to be some guidelines. I am concerned that it is so complicated that you want to look at each fishery. For example, the co-op worked great in the Bering Sea. The co-op may work great in some of the crab fisheries but in some of the other fisheries where you have a large number of vessels, different sizes and types of vessels for the same species, it is going to be more difficult to do a co-op.

I think what we need to be doing and what I have talked to several groups about is to develop a business plan for their fishery and then to actually look at the different options you have to address capacity and do it on a fishery by fishery or gear by gear type thing.

But I think we have heard, to be honest with you, since I have been in the job, a lot of questions and comments from the Hill staffers about trying to work out some type of buyout program that was more concentrated rather than just these fragments, so to speak, that we keep doing. I think we need a united program that has some guidelines but not so specific that we could not adjust from fishery to fishery.

Mr. GILCHREST. We would certainly like your suggestion on those guidelines as we pursue that line of thinking.

And then the last question is I guess none of this would be very effective unless we have sufficient data to understand the nature of that fishery in all its ecosystem parameters? So we would like and certainly need your suggestion on how we can increase the data for each management council so that they use the guidelines with a sense of confidence.

Dr. HOGARTH. Mr. Chairman, to that point, since the last hearing I was at, we have set up a group in the agency that will be going outside to get some academics, environmentalists and stakeholder input. We set up the group to look at ecosystem management and the central fish habitat, and to get a better idea of the type of data needed, the type of sampling we will have to do, the type of information, the type of modeling that will be necessary, and just get a better idea of how you do the Federal program and the type of data you need. So this is getting started immediately now and hopefully we will have some better information along that line.

Mr. GILCHREST. Is there any way you can give us a suggestion as to the amount of money that would be needed to carry that program out effectively?

Dr. HOGARTH. That is what I am trying to do because I think it is more expensive than a lot of people think it is. To really get into the ecosystem you have to look at the climate; at environmental changes; at the habitat. There are a lot of things you have to do that I am not sure people have thought about—the big picture of ecosystem management, but I think this is the approach that we will be going to in the future. We have to make sure that we are ready and have the right information.

We have to get a lot more economic data but we are in the process of trying to hire six economists to spread out across the regions to work with industry.

Mr. GILCHREST. Thank you very much, Dr. Hogarth.

Congressman Underwood.

Mr. UNDERWOOD. Thank you, Mr. Chairman. I ask unanimous consent to enter my statement to the record.

Mr. GILCHREST. Without objection.

[The prepared statement of Mr. Underwood follows:]

Statement of The Honorable Robert A. Underwood, a Delegate to Congress from Guam

Thank you, Mr. Chairman, and good morning. I want to thank you for holding a hearing on the very serious matter of overcapacity in our nation's fisheries. The issues of overcapacity, overfishing, and subsidies are intimately related to the reauthorization of the Magnuson–Stevens Act, and what we learn today will be an important part of that effort.

When the Magnuson–Stevens Act initially became law twenty five years ago last month, it gave to America's fishermen the exclusive right to harvest America's resources within our waters. The foreign fishermen, who were harvesting as much as 70% of our fish, were phased out and eventually banned in order to fully develop US fishing capabilities.

In many cases, however, our efforts to Americanize US fisheries may have been too successful as more and more Americans exercised their right to enter into open-access fisheries and took up where the foreign fishermen left off. Harvest rates actually went up after the Magnuson–Stevens Act became law, putting further strain on fish stocks.

Many feel the government encouraged this, with no thought to the sustainability of the resource, through tax incentives and financing programs for fishermen. At the same time, our management programs did not stop over-fishing when it began to occur. Now we are realizing the problems these programs and our lack of attention to over-fishing has created. Many of our stocks are seriously depressed and there is too much fishing capacity trying to catch the few fish that are left.

The U.S. is not alone in facing this crisis, it is world-wide. Other nations and international organizations, such as the FAO, are actively addressing this problem and are working to solve it. The U.S. has a responsibility to do the same.

Still, we must be careful when we talk about too much capacity to catch fish. This does not always translate directly into too many boats. 200 small boats in Guam for example, do not have the same harvesting capacity as 200 boats in the North Pacific, and may actually be able to harvest our fishery resources sustainably. When looking at this problem, it is essential that we differentiate among fisheries and how fishermen operate and their levels of industrialization to target reductions based on capacity, not just numbers of vessels.

The time for a change in how we take care of our resources has come. The Magnuson–Stevens Act originally sought to do this, but has not been successful. New initiatives must be taken to reduce capacity in our fisheries and continue our efforts to prevent over-fishing. By meeting these challenges now, there is a chance to turn the tide on stock depletions and to ensure that the resources so many rely upon continue to be there in the future.

Mr. UNDERWOOD. Thank you. And thank you for your testimonies. I must admit that there are a lot of things going on here in terms of trying to understand the whole industry; it is both fascinating and a little confusing to me.

I just want to deal with first of all, a question on the buyback program. Perhaps Mr. Hill, did you think that the problems that were associated with the buyback program are primarily the result of lax administration or is there some defects in the legislation, or did you deal with that issue at all?

Mr. HILL. Well, we did not directly deal with it. We determined what they were trying to achieve with the buyback programs, we analyzed how the programs were implemented and we looked at the results that were achieved. So we did not directly address the

question you are addressing to me but I will make some comments about this.

Here again each of these fisheries is unique. They have different characteristics. These programs were well-intentioned. On the surface it seems like a prudent thing to do but it is kind of like squeezing a balloon. You think you are going to have an intended purpose and then the other end kind of increases as you are squeezing the one end.

That is what happened here. Particularly I think the best example of that is in the New England buyback where the intention was to remove vessels, to remove permits from the fishery. The buyback pulled 79 vessels and permits out of the fishery. One would think that that would reduce the capacity. The unforeseen here and the thing that was not planned for was the fact that there was all this latent capacity out there, all these unused permits and vessels. There were not sufficient restrictions placed on the fishermen who participated in the buyback and many of those participants basically took that money, upgraded their vessel or bought another vessel and started using an unused permit and, in essence, eroded all the gains and the benefits that were intended by that buyback. So I think there is a real lesson to be learned there.

Mr. UNDERWOOD. Dr. Hogarth, in this process was it not becoming clear that these latent permits were going to be used to work to do exactly what Mr. Hill has outlined and why did not the councils do anything about it?

Dr. HOGARTH. Regarding control dates and setting limited entry, some of the councils felt like, in talking to them, that they should give the fishermen the opportunity to keep the permits but I do not quite understand that, either. Other councils, such as the South Atlantic, now say that if you want to get back into the fishery you have to buy two permits. You can buy two permits but that takes one permit out of the fishery.

They use different means but latent permits are a real problem and I think we have to go back to address it. One of the reasons that we went to limited entry in some of the fisheries was the fact that the council let everyone keep their permit. I think people thought that there would be a windfall by selling their permit, so they did not want to get rid of them. They looked at them as an investment. Now if we go back and try to take those permits, or if we say that you have to fish in the next five years you have to have a certain amount of harvest or you will lose your permit, we put more pressure on the fisheries. We have ourselves in sort of a box that I think we are going to have to work with the council to figure a way out. But we do need to get rid of latent permits.

Mr. UNDERWOOD. Is that a council problem or is that a legislative authority problem?

Dr. HOGARTH. All the councils have the authority; I think they need to do it. It is a council problem.

Mr. UNDERWOOD. It is primarily a council issue?

Dr. HOGARTH. That is correct. They all have the authority; they need to do it.

Mr. UNDERWOOD. Then I would suggest that they get moving on this problem.

I am trying to understand the Capital Construction Fund. The Capital Construction Fund, and this is Mr. Dunnigan, the Capital Construction Fund is designed to—what is the relationship between the Capital Construction Fund and the buyback program? They seem to be working at cross-purposes, or am I not seeing something correctly?

Mr. DUNNIGAN. The Capital Construction Fund has been around for decades and has been available to fishermen to take their profits and invest them and not pay taxes on those profits as long as they are used for an approved future project, just to build a new vessel.

I suppose you could say that there is some inconsistency between the government on the one hand trying to remove capacity and, on the other hand, trying to make it easier for fishermen to build capacity.

The problem is right now we are not trying to remove capacity in every fishery necessarily and the CCF is broadly available to fishermen regardless of what fishery they happen to be in.

So the CCF was a program that caused the greatest difficulty for the members of the task force to try to figure out what needed to be done. Clearly something has to be done. We do not really even know today how much money is in CCF accounts across the country. The National Marine Fisheries Service can tell us what the net deposits over net withdrawals is and it is about $250 million in our report. But with what has been happening to investments in this country over the last 15 years, we do not really know how much those investments have grown and there may be tremendous amounts of money that are legally only able to be used to build new boats. So the task force members came up with a number of recommendations for allowing alternative uses of those funds.

Mr. UNDERWOOD. Would this CCF program be seen as a subsidy?

Mr. DUNNIGAN. Well, under the task force's definition it is clearly. It is something that affects the profits of the individual firms in the industry, so we treated it as a subsidy, given the broad approach that the task force took in looking at its charge.

I suspect that almost under any definition, this program could be viewed as a subsidy in that it creates a special class of tax benefits that are given to particular members in the industry.

Mr. UNDERWOOD. Is the participation in the program guided by accurate data? Is it guided by individual fishery?

Mr. DUNNIGAN. The program is available to all commercial fishermen throughout the country to invest part of their profits. The data that would be available that govern the program really do not operate across a national level. It is just that the tax code provision is there if fishermen choose to want to use it.

One thing that the National Marine Fisheries Service has not had the opportunity to do is to track this program with sufficient detail so that they could understand what all of its implications are. It is one of those programs that is important to them but they do not have sufficient resources. They are working on other things, like the Fisheries Finance Program and they are competing for resources within the agency and they just do not have enough time to do it.

Mr. UNDERWOOD. Thank you.

Mr. GILCHREST. We will have a second round, Mr. Underwood.

Just a quick comment to the people standing in the back of the room. There are more chairs over here by the windows if anybody wants to sit down. You can pull some more chairs from the members' desks if you want to sit down because we may be here for a couple more hours, or you can stand. That is your choice. But if you want to walk over there and sit down, that is fine. Pull out a couple of extra chairs. We will wait till you pass through. There are a couple of chairs right here if you need to pull them over there.

Are you okay in the back of the room there? You must be a fisherman.

Mr. Saxton.

Mr. SAXTON. Thank you, Mr. Chairman.

Mr. Hogarth, thank you for bringing me the packet of information this morning about the buyback-buyout bill that I have introduced.

Let me start with two questions of special interest to me. As you know, I have been active for the last couple of years in trying to implement some conservation efforts for highly migratory species and I compliment you and your predecessor on your interest in conservation of highly migratory species, as well. And in particular, I would like to make note of the highly migratory closure provisions that you implemented through regulation along the southeastern coast of the country and in a couple of locations in the Gulf of Mexico. I think that is a step in the right direction.

However, some of my colleagues from the southern part of the country now find themselves with some disadvantaged fishermen because of the regulations and unfortunately, we were unable during the last session of Congress to implement a compensation problem—it was a problem, believe me—a problem for them and for others in the Atlantic because of our inability to come to closure on some of the issues.

In most fisheries the Secretary apparently has the authority to implement a buyout program and then request funding from the Congress for the financing part of that program but in the case of highly migratory species, apparently the Secretary does not have the ability to move forward. Is that correct, with the buyout program?

Dr. HOGARTH. That is my understanding, yes.

Mr. SAXTON. And I have language in Magnuson here in front of me. In Section 312, paragraph B, Fishing Capacity Reduction program, the specific language seems to eliminate the authority. It says, "The Secretary, at the request of the appropriate council for fisheries under the authority of such council, or the governor of the state for fisheries under state authority, may conduct a Fishing Capacity Reduction program in a fishery if the Secretary determines," and so on.

Now this language creates apparently a problem for you because it says that the Secretary must do it at the request of the appropriate council or the governor. Is that correct?

Dr. HOGARTH. That is my understanding.

Mr. SAXTON. And therefore since no council or no governor has direct authority to make that request in HMS, therefore the Secretary cannot implement a buyout program. Is that correct?

Dr. HOGARTH. Yes. The East Coast highly migratory is managed by the Secretary and not by a council.

Mr. SAXTON. And since this language says that this must come at the request of a council or a governor, the Secretary cannot move forward with a program; is that correct?

Dr. HOGARTH. Unless a governor, I guess, would come forward. Then we could possibly do it.

[A letter from Dr. Hogarth clarifying his response to the preceding questions follows:]

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NATIONAL MARINE FISHERIES SERVICE
1315 East-West Highway
Silver Spring, Maryland 20910
THE DIRECTOR

The Honorable James V. Hansen
Chairman, Committee on Resources
House of Representatives
Washington, DC 20515

Dear Chairman Hansen:

On May 10, 2001, I testified before the Subcommittee on Fisheries Conservation, Wildlife and Oceans on Capacity Reduction Programs and reauthorization of the Magnuson-Stevens Fishery Conservation and Management Act. During the Question and Answer period, I received some questions from Rep. Jim Saxton (R-NJ) that I would like to clarify in the transcript.

1) On page 38, lines 785 - 789, the following statement clarifies Dr. Hogarth's intent when answering the question:

"The statutory language is not clear. We have interpreted it to provide us with the authority for East Coast highly migratory species but a clarification in the statute would be helpful."

2) On page 38, lines 790-791, the following statement clarifies Dr. Hogarth's intent when answering the question:

"The statute isn't clear so we would prefer a clarification."

These changes to the transcript reflect a more accurate answer to Mr. Saxton's questions and clarify for the Committee that specific statutory language with respect to the management of highly migratory species would be helpful to the National Marine Fisheries Service.

Thank you for your assistance in this matter. If you or your staff have any questions about these changes, please call Michelle Fox in my Legislative Affairs Office at 301-713-2263.

Sincerely,

William T. Hogarth, Ph.D.

THE ASSISTANT ADMINISTRATOR
FOR FISHERIES

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Mr. SAXTON. Would you think it would be a good idea for us to look at amendatory language in this reauthorization that we are going to do this year to eliminate that problem so that you can move forward with an HMS buyout if you determine it appropriate to do so?

Dr. HOGARTH. Highly migratory species, in spite of a lot of things we do in the U.S. to regulate them, we are at the mercy of a lot of foreign countries that do not have the same conservation ethics we do and I think a buyout program for the highly migratory species would be—

Mr. SAXTON. Now I am not a good legal wordsmith but just let me suggest if we said something like this, that the Secretary, at the request of the appropriate council for fisheries under the authority of such council, or the governor of the state for fisheries under state authority, or at the discretion of the Secretary in the case of highly migratory species, that would solve your problem, would it not?

Dr. HOGARTH. It sounds like to me it would. I have an attorney sitting behind me.

She says it would be nice to have it clarified, that we could possibly try to go forward without it but it is nice to have it clarified and that would do it, yes, sir.

Mr. SAXTON. Okay. Now let me ask you specifically about the southern closure and the situation there. In commenting on the bill which I have introduced to provide for a pelagic long-line buyout, you comment that the proposed legislation assumes that the South Atlantic buyout in particular is in place and that compensation would be made pursuant to that regulated closure and that we cannot make that assumption because there has been a lawsuit instituted which has the potential of negating that closure.

Dr. HOGARTH. That is correct.

Mr. SAXTON. My question then is do we need legislation to make that closure a legislated closure rather than a regulated closure?

Dr. HOGARTH. I think that second-guesses the courts, which I probably should not do, but it depends. The only reason we would point out now is that we do not know which way these court cases will go and I think there are three of them that affect this area. If we lose that then it would affect your bill because there would be no closure.

I think it is necessary, in the long line fleet, if you try to save small swordfish, that is what we have done with these closures. There is also potentially a problem with bycatch of billfish and all, which is another problem.

If you close one area and push them to another and just use the same number of vessels, we are not accomplishing a lot. We do need, in my opinion, a buyout program in the long line fishery to accomplish the goals of both bycatch and the capacity for those fisheries, yes.

Mr. SAXTON. So you are saying that a buyout program would be more effective—a closure would be more effective in conjunction with a buyout.

Dr. HOGARTH. Yes, sir.

Mr. SAXTON. Rather than a closure that stands alone, like the one in the South Atlantic.

Dr. HOGARTH. Yes, sir. I thought Congress was extremely close to a very good bill in the last session. We had a couple of minor problems that we noted but I thought that you all got close to a very good bill.

Mr. SAXTON. Actually, I thought that the House version and NMFS, the cooperation that I saw between the agency and members of the House was exemplary and I think we came to closure on every issue. There were some differences of opinion in the other body but I thought we were very close and hopefully we can get there again.

I have taken the opportunity to read through the comments that you have made here to me in writing just as of today and I again do not, and I may be overlooking something but I do not see anything here that is going to sidetrack us. You have some problems with some language; you have some problems with some periods of time under which things happen; you have some problems with the definition of initial limited access permits and you would like to replace that term with something else and all that is fine. I think we can work through this.

I also would just like to say to Mr. Hill I agree with you, sir, in terms of capacity of individual fishermen to catch fish that are remaining. We certainly have to put some kind of limit on their ability to expand their capacity to catch fish or the buyout program is just spending money and we all run in a big circle.

I appreciate your comments on the legislation that I have introduced and I also appreciate your clarifying what you need to move forward with a buyout regulatorally and I think we will try to accommodate those changes in the language.

Dr. HOGARTH. If you need our people, we can work with you and I think it is something that is just wordsmithing, so to speak.

Mr. SAXTON. Thank you very much.

Thank you, Mr. Chairman.

Mr. GILCHREST. Thank you, Mr. Saxton.

I think we will run through one more round if members have any other questions.

Dr. Hogarth, can you tell us the status of the FAO plan of action for managing fishing capacity?

Dr. HOGARTH. I am not sure that I know the exact status. I know we are continuing to work through the program. It is somewhat of a slow process but we have had several meetings. As far as the implementation, I do not know but I can get back to you on the schedule.

Mr. GILCHREST. Any indication that it may be successful from the earlier meeting?

Dr. HOGARTH. I have been told that we think it will be successful and it should be completed by the end of 2002.

Mr. GILCHREST. 2002?

Dr. HOGARTH. Yes, sir.

Mr. GILCHREST. Thank you. One other question. I understand that NMFS is currently working on a $10 million buyout for New England. Can you tell us a little bit more about that effort?

Dr. HOGARTH. That was $10 million that was put in by Congress and a Federal Register notice announcing that the money is there

has gone out for public comments on how the program should operate.

Mr. GILCHREST. Is that $10 million buyout program as it is formulated going to be different from the previous buyout program in New England?

Dr. HOGARTH. We hope so. Yes, sir, we hope we learn from the GAO report and others, that it will be better.

By the way, we have bought back—I was looking at the data last night—we bought back almost 1,800 permits since 1994. Of course, as Mr. Hill said, we bought I think about 79 vessels, 79 plus vessels, but quite a few of those are back in the fishery because they were able to use latent permits or switch fisheries.

Most of our fisheries now, including the shrimp fishery in the Gulf, will have permit systems and control dates so I think we are getting to the point where it will be much more difficult to switch fisheries on account of control dates and limited entry programs.

Mr. GILCHREST. So the buyout program in New England is in the status of public comment now? You have not actually developed a plan to—

Dr. HOGARTH. Before we develop the plan, for which we have the money, we announce to the public that we have this and we try to see who is interested, and what type of interest there is in the program. Then we will, based on that, put together a plan to go forward.

Mr. GILCHREST. Now is this a buyout for groundfish fishery? The buyout is specifically oriented to that issue?

Dr. HOGARTH. Yes. Latent capacity in the groundfish fishery.

Mr. GILCHREST. Are you involved at all in this, Mr. Dunnigan?

Mr. DUNNIGAN. No. A number of our state directors are as members of the New England Fishery Management Council but the commission is not involved in it.

Mr. GILCHREST. Are there any other buyout programs? New England, you mentioned the Gulf of Mexico. Anything else in the works?

Dr. HOGARTH. Alaska crab fishery.

Mr. GILCHREST. We have a vote on and I do not think we will get through the second round before we have to leave.

Do you have any other questions, Mr. Underwood?

Mr. Saxton, any other questions?

Mr. SAXTON. I will pass.

Mr. GILCHREST. We can always come back. If you do not have any other questions, I have one other question but I yield first to Mr. Underwood.

Mr. UNDERWOOD. Just a question on subsidies. In addition to the financing programs, such as the CCF, there are other direct or indirect government subsidies. Of interest to those of us in the Pacific is the fact that worldwide subsidies are estimated to—obviously are much higher in other countries than they are for our own fishing. How can U.S. fishermen compete against foreign fishing fleets that continue to be heavily subsidized?

Dr. HOGARTH. It is very difficult. In looking at the data, it is probably $12 to $14 billion that is spent worldwide on subsidies. We have followed Japan and other nations to work with the Pacific nations to get fishing rights for our tuna fleet.

China is the number one fishery. We do not know how much they spend; evidently quite a bit. We know that the EU and Spain in particular now are building large, large vessels. I mean extremely large—1,250 metric ton type things.

It does put our fishermen sort of at a disadvantage. There is no doubt about it. But if they are going to fish internationally, versus Americanizing the U.S. fisheries within the 200 mile zone, I think it is two different questions whether we fish from an international standpoint versus where we are under the Magnuson-Stevens Act.

Yes, it is a lot of money being spent. Japan paves roads, builds airports and tells the countries that they want their fishing rights while we have to go in and try to negotiate through the fishermen themselves.

Mr. UNDERWOOD. Other than just acknowledging it, have we given some thought as to how we could deal with this in a way that balancing the playing field?

Dr. HOGARTH. We tried to deal with it through the new multilateral conference that is being developed for the Pacific Islands. That is one thing we are trying to work on in that negotiation. But overall, we work with the State Department, but I do not think, to be honest with you, we have a real program on this issue.

Mr. UNDERWOOD. If you could address that?

Mr. DUNNIGAN. Just a little bit more on that. I think the whole question of fishing subsidies is an important issue internationally and it is being dealt with by the World Trade Organization. Dr. Milazzo, who is in the back here from the National Marine Fisheries Service, knows a lot about that.

All of the programs that the task force looked into are programs that have been looked at in the concept of what can be done and what kinds of subsidies should come off the table and what kinds should countries be allowed to have.

One of the things our task force said was we do not start from the a priori assumption that all subsidies are bad, that there might be legitimate policy reasons for the Congress to do certain things. What is important is to understand why you are doing it and the effects that it is having.

Mr. UNDERWOOD. Okay, thank you.

Mr. GILCHREST. Thank you, Mr. Underwood.

Just a quick follow-up, Mr. Dunnigan. Can you briefly describe to us the subsidies toward fishermen versus subsidies toward processors? Is that a consideration in any of this?

Mr. DUNNIGAN. The task force, taking a broad view, we looked at all government programs. For example, if there is an Economic Development Administration program that helps to build a fishing pier or a dock where processors could use to catch fish, we looked at that as also being a subsidy. The hardest problem we found though was that there are not sufficient data that are collected by the various agencies that are doing these things in order to understand where these impacts are.

Most of the programs that you will look at, the Capital Construction Fund program, the loan programs, are aimed more at the fishermen side than at the processor side.

Mr. GILCHREST. We can talk about that later, given the time restraints we have right now.

How are the horseshoe crabs doing?

Mr. DUNNIGAN. I was afraid you were going to ask about the striped bass eating the blue crabs.

We are continuing to work on our horseshoe crab assessment, Mr. Chairman, and hope to have some much better information about the status of that resource by the end of the year.

Mr. GILCHREST. Thank you very much.

Gentlemen, thank you very much. We apologize for the vote schedule. Thank you for coming.

The hearing is recessed for about 15 minutes.

[Recess.]

Mr. GILCHREST. The Committee will come to order.

Before we start there are plenty of seats now so if anybody wants to take them.

Panel 2 will be Mr. Scott Burns, director, Marine Conservation Program, World Wildlife Fund; Mr. Gordon Blue, president, Crab Rationalization and Buyback Group. Welcome. Mr. Zeke Grader, executive director, Pacific Coast Federation of Fishermen's Associations; welcome, sir. Mr. Jim Kirkley, Chairman, Coastal and Ocean Policy Department, Virginia Institute of Marine Sciences; welcome. And Mr. Mike Nussman, vice president, American Sportfishing Association.

Welcome, gentlemen. We look forward to your testimony.

Scott, you may begin.

STATEMENT OF SCOTT BURNS, DIRECTOR, MARINE CONSERVATION PROGRAM, WORLD WILDLIFE FUND

Mr. BURNS. Good morning, Mr. Chairman. Once again I want to thank you on behalf of World Wildlife Fund for inviting us to share our views on the problem of fishing fleet overcapacity and the ways in which it might be addressed as part of the next reauthorization of the Magnuson-Stevens Act.

As we say in our written testimony and as other witnesses today have already stated, overcapacity is not only a threat to the biological sustainability of our fisheries; it undermines the economic well-being of fishermen across America and the fabric of coastal communities.

Last week I had the opportunity to speak the at National Fisheries Institute's biannual meeting and while I was there I noted that overcapacity is arguably the single biggest challenge facing both conservationists and the seafood industry today. Where overcapacity exists, fishermen work harder and spend more to catch fewer fish. And because it produces increased fishing effort, overcapacity exacerbates any adverse ecosystem effects that may exist in a fishery. Since dealing with excess capacity is consistent with the best interests of both fishing communities and the environment, we are glad that this Subcommittee has chosen to focus on it today.

Let me share one personal story with you to illustrate the problem. As you may know, Mr. Chairman, in the mid-1970's I worked as a commercial fisherman in your district back in the days when the blue crab fishery was in much better condition than it is now. The aspect of the crab fishery that I want to focus on today is this. For nearly a quarter century after I stopped crabbing fishermen in

the bay caught more or less the same number of crabs, on average but over the same period of time, the number of crab pots being fished increased dramatically. In other words, crabbers were spending more money on crab pots, they were spending more time and energy fishing them, and there was no increase in catch. And last year this excess capacity caught up with us, as you know, and the catch declined precipitously.

This same story is being played out all over America today. I know Gordon Blue, who served with me on the Federal Investment Task Force, is going to talk a bit about the problem in the context of the crab fisheries in Alaska. I think the list goes on and on.

I think it is important that we carefully consider the options for fixing this problem as we debate possible amendments to Magnuson-Stevens.

Now our written testimony suggests a number of possible steps we might take but I would like to emphasize a couple of highlights. First, we observe that while a variety of capacity reduction initiatives have been undertaken in recent years in fisheries all across America, there are a lot of overcapitalized fisheries that remain unaddressed and to correct this we suggest that developing a more systematic approach to identifying and remedying excess capacity ought to be a priority in the next reauthorization.

Specifically, we think that a good template for such a system can be found in the United Nations Food and Agriculture Organization's plan of action for managing fishing capacity, the FAO plan that you mentioned earlier, Mr. Chairman. The United States played a lead role in crafting this plan of action. It calls upon nations, including the United States, to identify fisheries with overcapacity problems and to develop and implement strategies to improve the situation.

Because the U.S. showed leadership in offering the plan of action, we think it is incumbent upon us to demonstrate similar leadership in implementing that and we think the most straightforward way to do that would be to incorporate the key provisions from the plan into Magnuson during your next reauthorization.

I agree, by the way, with Bill Hogarth that we really need to solve the capacity puzzle on a fisheries by fisheries basis, but I think the framework in the plan of action provides, as I said, a template, a national template, for doing that.

Secondly, we make a number of suggestions aimed at assuring that adequate financial resources are dedicated to downsizing efforts.

I think our main point here is that we need to recognize that public sector dollars alone are not going to do enough to get the job done. We need to find ways to really stimulate industry, financial participation and capacity reduction.

For a number of reasons, Congress's effort to do just that as embodied in Section 312 of the act does not seem to be working very well so we suggest a reexamination of that issue and of 312 to determine what incentives and other measures are needed to really generate private sector support for downsizing.

We also strongly support the recent recommendations of GAO on buybacks. We need to make sure that we get our money's worth from the few buyback dollars that we have.

And lastly, we recommend that the Congress look at ways that we can reformulate existing U.S. subsidy programs to support capacity reduction.

I served on the task force that Jack Dunnigan chaired. He has already covered that and I will not go into it except to say that specifically we do recommend changes in the Capital Construction Fund that allow monies to be used in industry-financed buybacks and in other downsizing initiatives. CCF was put in place originally, in part, to make our fleets more competitive. Ironically, arguably the best way to do that in a lot of fisheries today is to make them smaller.

Last but not least, since we are an international organization, we point out that overcapacity is a global problem and that excess capacity in foreign fleets directly harms U.S. interests. This is most obvious in fisheries, in international fisheries that we participate in, like the tuna fisheries in the Western Pacific and the Eastern Pacific.

We also note that the global overcapacity problem, as a number of other witnesses have mentioned, is caused, in part, by the extraordinarily large subsidies that exist in many nations for the fishing sector. These subsidies are not just environmentally harmful. As we have already noted, they put U.S. seafood producers who receive comparatively low subsidies at a competitive disadvantage.

That is why the call for U.S. leadership in reducing the level of international fishing subsidies has come from industry groups like NFI, as well as organizations like WWF. And this is also why, I think, bipartisan support has existed for the effort to curb these subsidies at the World Trade Organization, which was mentioned earlier. We think that the upcoming WTO ministerial in Qatar really offers an important opportunity for a renewed U.S. push on the subsidies issue. We think, as I said before, that it would benefit both our industry and conservation.

Once again, Mr. Chairman, thanks for the opportunity to testify today. I look forward to answering your questions.

[The prepared statement of Mr. Burns follows:]

Statement of William Scott Burns, Director of Endangered Seas Campaign, on Behalf of World Wildlife Fund

Mr. Chairman and Members of the Subcommittee:

On behalf of World Wildlife Fund's 1.2 million members, thank you for the opportunity to testify concerning current problems with excess fishing capacity in U.S. fisheries, and the options for addressing this issue during the upcoming reauthorization of the Magnuson–Stevens Fishery Conservation and Management Act. Known worldwide by our panda logo, WWF is dedicated to protecting the world's wildlife and the rich biological diversity that we all need to survive. The leading privately supported international conservation organization in the world, WWF has sponsored more than 2,000 projects in 116 countries since 1961.

Americans increasingly understand that the environmental and economic well being of our coastal areas depends on the sustainable management of our fisheries resources. When it passed the Sustainable Fisheries Act in 1996, Congress recognized the threat posed by overfishing and enacted important new measures to prevent fisheries depletion. Since then, over forty new rebuilding plans have been put in place, and progress has been made in restoring several depleted fish populations. While much work remains, the environmental trajectory in many U.S. fisheries is more promising than it was prior to the 1996 Magnuson amendments.

Perhaps the single biggest impediment to progress in restoring America's fisheries is the overcapacity of fishing fleets. Overcapacity undermines the economic well being of fishermen and coastal communities. It forces fishermen to fish harder and

spend more to catch fewer fish and make less. It generates an economic desperation in fishing communities that further complicates the already difficult politics of fisheries management. Finally, overcapacity exacerbates the negative effects of fishing on ocean ecosystems - by forcing fishermen to fish harder, it contributes to increased bycatch and damage to habitat.

For these reasons, WWF believes that addressing overcapacity should be a leading priority for Congress as it considers possible amendments to the Magnuson–Stevens Act. As we note below, the prescription for progress in this area should include more systematic and aggressive efforts by NMFS and the regional councils to craft capacity reduction initiatives on a fishery-by-fishery basis. In addition, we need to rethink current expenditures and subsidy programs that may be stimulating excess capacity, and reshape them into effective tools for fleet downsizing. Finally, it is important to recognize that America's interests are threatened by the uncontrolled growth of foreign fleets as well, and that U.S. leadership in international efforts to combat global overcapacity is essential.

REDUCING EXCESS CAPACITY IN U.S. FISHERIES

In the past decade, a growing number of American fisheries have begun to grapple with the problem of excess fishing capacity. Some of our most economically important fisheries are confronted with the problem of too many boats chasing too few fish. Fleet overcapacity is one of the factors that drove the depletion of New England's groundfish stocks. It is a major issue in the rockfish fisheries of the west coast, the red snapper fishery in the Gulf of Mexico, and the crab fisheries of Alaska.

Generally speaking, we have not given this problem the attention that it deserves. Our efforts to address overcapacity have been piecemeal, and most capacity reduction initiatives have underperformed as a consequence of flawed planning and poor execution. The federal government has spent $140 million since 1995 to fund buyback programs - without addressing even the tip of the iceberg of our nation's overcapacity problem. And according to a recent report by the General Accounting Office, the long-term effectiveness of most federal buyback initiatives has been largely undermined by the subsequent entry of new vessels and fishing effort.

WWF believes that developing a more systematic and serious program to address excess capacity in U.S. fleets should be a priority of this Subcommittee as it considers revisions to the Magnuson–Stevens Act. Ultimately, capacity reduction efforts need to be developed on a fishery-by-fishery basis, and should be premised on a clear vision of what we want our fisheries to look like in the future, and how we want to distribute their benefits across society. Because each fishery is different, the specific objectives of capacity reduction plans and the choice of tools to achieve these objectives should be crafted by the regional councils based upon input from stakeholders. However, Congress must provide an effective framework for these regional endeavors that assures progress and accountability. It must also assure that we make better use of federal funds aimed at capacity reduction than we have in the past - and that we create new incentives for greater industry financial participation in fleet downsizing.

A National Framework for Managing Fishing Capacity

Two years ago, the United States played a leadership role in the development of an International Plan of Action for the Management of Fishing Capacity (the Plan of Action) at the United Nations Food and Agriculture Organization. The Plan of Action notes that excessive fishing capacity contributes substantially to overfishing, the degradation of marine fisheries resources, the decline of food production potential, and significant economic waste. To remedy the current situation, it calls upon fishing nations to take several coordinated and cooperative steps including: (i) the assessment of fleet capacities in all major fisheries by the end of 2000; (ii) the establishment of an international record of all vessels fishing on the high seas; (iii) the identification by the end of 2001 of "fisheries requiring urgent measures"; and (iv) the adoption of preliminary measures for the management of fishing capacity by the end of 2002. Full implementation of national plans to manage capacity should be completed by 2005 at the latest.

Because timely steps to address excess capacity will benefit both fishermen and the environment, we urge Congress to adopt the timetable in the Plan of Action as a starting point for developing a national capacity management strategy. Specifically, WWF asks:

- That this Subcommittee incorporate key elements of the Plan of Action into a new, systematic program for assessing and managing fishing capacity during the upcoming reauthorization of the Magnuson- Stevens Act; and

- That the Congress communicate with NMFS concerning the importance of timely and effective implementation of the steps called for in the Plan of Action

Paying for Capacity Reduction

As we mention above, to date federal buyback programs have invested approximately $140 million to reduce capacity in a mere handful of fisheries - with limited success. We need to learn from the mistakes of previous buyback programs, and make sure that future efforts make better use of limited federal funds. We also need to recognize that, absent a dramatic increase in federal expenditures, government buybacks alone will never provide the financial means for needed fleet downsizing programs. Accordingly, as part of the next Magnuson–Stevens reauthorization this Subcommittee should explore a range of measures aimed at stimulating increased private sector financial support for capacity reduction. Specifically, WWF suggests that:

- This Subcommittee urge NMFS to design future buyback programs in a manner consistent with the recommendations contained in the General Accounting Office's recent report, "Commercial Fisheries - Entry of Fishermen Limits Effectiveness of Buyback Programs", which WWF strongly endorses;
- As part of the upcoming reauthorization, Congress reevaluate the legislative authority for capacity reduction programs contained in Section 312 (b)–(e) of the Magnuson Stevens Act, to determine whether new incentives or other measures are needed to secure greater industry financial participation in downsizing efforts; and
- Congress review the recommendations of the Federal Investment Task Force (on which WWF served) to identify ways in which current U.S. subsidy programs can be reconfigured to provide support for capacity reduction - and eliminate incentives for counterproductive fleet expansion. In particular, WWF urges the Congress to consider allowing monies in Capital Construction Fund accounts to be utilized in industry financed buybacks and other capacity reduction initiatives.

THE INTERNATIONAL DIMENSION OF EXCESS FISHING CAPACITY

Excess fishing capacity is a problem not only in U.S. waters, but also in many of the world's leading international fisheries. With global fishing capacity estimated at up to twice as large as it should be-and with 70% of the world's major commercial fisheries already overfished, fully exploited, depleted or slowly recovering-the problem of "too many boats chasing too few fish" has become a truly global one.

In many cases, fleet overcapacity is a problem in international or multinational fisheries in which the U.S. has a direct interest. Historically, the difficult disputes between Canada and the United States (as well as between Canada and several other nations) over collapsing cod stocks on the continental shelf had their roots in badly bloated fleets. More contemporaneously, overcapitalization is one of the underlying causes of the depletion of valuable swordfish stocks in the Atlantic. In the Eastern Pacific, the purse seine yellow fin tuna fishery is facing rising capacity pressures, which threaten the effectiveness of regional management by the Inter-American Tropical Tunas Commission. In the Western Pacific, the specter of future overcapacity in the world's most valuable tuna fishery has prompted new U.S. industry calls for limits on fishing effort. And the list could go on.

The U.S. also has an interest in reducing fleet overcapacity in fisheries where the U.S. does not currently have a direct stake. It has become all too common for fishing vessels to move from stock to stock, from species to species, and even from ocean to ocean, exhausting one fishery and then simply moving on to the next-a phenomenon known as "serial depletion." In other words, today's excess capacity in a fishery not targeted by U.S. fishermen can quickly become tomorrow's excess fishing capacity in fisheries where U.S. boats are active. Some governments (such as the European Union) have made the export of excess fishing capacity an explicit element of their own capacity management policies. Unfortunately, these exports are not always carried out with sufficient attention to the impacts on overall fleet capacity and fisheries management.

In short, the United States needs to be active and forward-looking in seeking effective capacity limits not only in our own national fisheries, but as part of our in participation in the management of regional and international fisheries around the world.

Fortunately, the United States has already begun to play an active role in preliminary efforts to address the international dimensions of excess fishing capacity. For example the U.S. has been a leading voice in efforts to develop new international rules to reduce and reform government subsidies that drive overcapacity.

Over the past several years, it has come to be widely recognized that subsidies to the fishing industry can be a significant factor in the overcapitalization of fleets. Current estimates put global fishing subsidies at well over ten billion dollars per year, and perhaps as high as twenty billion. According to one World Bank study, government supports to the fishing industry may account for up to 25% of the value of worldwide fish catches each year. The World Bank, the Asia Development Bank, the OECD, the FAO, and even the WTO itself have recognized that many fishing subsidies may be linked to the depletion of the world's fisheries. Two years ago, as governments around the world contemplated the launch of a new round of global trade talks under the auspices of the WTO, the United States was a leading voice among more than two dozen countries calling for the WTO to negotiate new disciplines on fishing subsidies. WWF was proud to be at the forefront of environmental groups supporting this initiative. We note that support for this initiative also came from significant fishing industry sources, including the National Fisheries Institute, which joined with WWF on several occasions to issue calls for action on the international fishing subsidies issue. This is not surprising, since high levels of fishing sector subsidies in foreign nations put our seafood industry (which receives comparatively low subsidies) at a competitive disadvantage.

The failure of the WTO meeting in Seattle almost eighteen months ago interrupted the progress towards new WTO rules on fishing subsidies. Had the meeting in Seattle not collapsed, it looked very likely that negotiations towards such rules would have been formally included in the new round of trade talks. This would have been a very significant development, both for efforts to reduce harmful fishing subsidies and for those who wish to see the WTO pursue "win-win" scenarios for trade and the environment. As countries gear up now for the next WTO ministerial meeting scheduled for late November of this year in Qatar-the time is ripe for the U. S. to reenergize its leadership on this issue. Despite the near-success in Seattle, it will take dedication and political will to keep fishing subsidies on the WTO agenda, and to secure a commitment to negotiations towards new WTO rules.

With regard to international efforts to reduce and reform subsidies that drive overfishing, WWF urges this Subcommittee to undertake the following specific actions:

- Communicate with USTR, the Department of Commerce, and the White House to emphasize the importance of visible U.S. leadership on fishing subsidies at the WTO;
- Include attention to fishing subsidies in congressional activities including hearings—related to preparations for the WTO meeting in Qatar;
- Urge USTR to seek improved implementation of existing WTO subsidies rules that require countries to report details of their fishing subsidy programs to the WTO;
- Urge USTR and the Department of Commerce to give priority to reducing and reforming harmful fishing subsidies in the context of the Asia–Pacific. Economic Cooperation (APEC) forum; and
- Urge USTR, the Department of Commerce, and the Department of State to raise fishing subsidies in our bilateral relations with governments such as the European Union and Japan. (With regard to the EU, emphasis should be given to the need to reform EU "structural funds" and other subsidies applicable to fisheries during the "mid-term review" of structural funds scheduled for 2002; with regard to Japan, emphasis should be given to the need for improved transparency and reporting about fishing subsidy programs).

As we note above, another area in which the U.S. has played a positive and active international role is with regard to an FAO Plan of Action to manage fishing capacity. In addition to adopting the Plan of Action's framework as a template for domestic capacity management in the United States, we urge this Subcommittee to support continued dedication of U.S. resources to its implementation elsewhere. Consideration should be given to increasing foreign assistance to developing countries to support their participation in the Plan. Diplomatic resources should be dedicated to putting pressure on major fishing nations to keep to the Plan of Action's implementation schedule. WWF also urges you to support efforts to strengthen international cooperation for the management of fishing capacity, particularly in areas in which the Plan of Action is weak (such as in the control of international transfer of fishing capacity).

WWF applauds the fact that U.S. has been a leader in seeking international solutions to the overcapacity problem in both the WTO and the FAO. This leadership needs to be maintained and reenergized, with the support and participation of Congress.

CONCLUSION

Once again, WWF appreciates the opportunity to offer our views on the problem of fishing fleet overcapacity in the United States, and to work with this Subcommittee to make our fleets more economically and biologically sustainable. As we note above, overcapacity is a major challenge for both fishermen and conservationists. We look forward to working with other stakeholders to address this important issue as we move forward with the upcoming reauthorization of the Magnuson- Stevens Act.

Mr. GILCHREST. Thank you, Mr. Burns.

Mr. Blue.

STATEMENT OF GORDON BLUE, PRESIDENT, CRAB RATIONALIZATION AND BUYBACK GROUP

Mr. BLUE. Thank you, Mr. Chairman. My name is Gordon Blue. I am president of the CRAB Group. I am also a commercial crab fisherman in the Bering Sea. I have been involved there since 1978 when I began as a crewman.

I would like to thank the Subcommittee for holding this hearing and for allowing me to be here. I am delighted to be able to speak to you and I hope to offer my experience in the Bering Sea crab fisheries. I hope that it will be beneficial in a general sense.

I was invited to serve on the Federal Investment Task Force and it was a marvelous opportunity for me to learn that our issues in the Bering Sea were not isolated, even though geographically we are in every sense. The issues we were facing and struggling to deal with were ones that are global and certainly matters of national concern.

We are in serious trouble in the crab fisheries and this was not so apparent at the time that I sat on the task force in 1998. Prior to that, members of the CRAB Group had already started trying to work out how to accomplish a Section 312 buyback that would have sufficient appeal to the people in the crab industry that would have to pay for it. We designed an industry-funded program under Section 312 and were working at that time to get it through because we were concerned about what the future of our fisheries might bring. We were concerned that we already had significant excess of harvesting capacity in the fisheries and that we would be creating damages because of this that would lead to collapse of the stocks. There was not a great deal of prescience involved in this realization that this was coming because we had suffered a similar collapse of red king crab stocks in the early '80's.

So the concerns, though, were not readily apparent from the income of the fleet. In my testimony in the written part I give a chart of the income stream in the crab fleet over a number of years.

So we had sort of a tough battle under 312. We met a number of folks that said we were just trying to take advantage of this to corral too much opportunity for too few people. I think we got past that through what we were able to demonstrate on the record in those days and our program had gotten a lot of support from the industry. We did a survey of people in the industry and over two-thirds of them were in favor of paying for a buyback themselves.

What we found was we simply could not do a good buyback overnight; in order to meet the kinds of requirements that the GAO report brought up later we had to stop the influx of effort so that we

would not be overwhelmed by new effort after the buyback was accomplished. We went to work on that problem and I think we have finally arrived at the stage where we have good controls on effort, as well as new effort coming into the fisheries. We also have an effective license limitation program and have worked to reduce the latent capacity in the fishery, which means we have worked to help cut down on the number of existing permits that are not being used.

In fact, the North Pacific Fishery Management Council (NPFMC) has helped us immensely and we have cut back the number of licenses from approximately 400, to approximately 285. That is a significant savings in cost to the program and it certainly is a significant statement on the part of the NPFMC about the necessity for going ahead with these programs.

We have also discovered that Section 312 could probably be improved. We did not appreciate fully the impact that retiring vessels from one fishery could have on other fisheries.

In the Bering Sea crab fisheries we have had a good income stream for quite a while, and the boats are worth a couple of million dollars each. To retire these vessels in a buyback plan that involves licenses and then dumping them on the market would be very damaging to other fisheries.

So in the appropriations act measure that was passed last year to support the crab buyback, which is part of H.R. 4577, we have added provisions that the vessels must permanently retire their fishing licenses, their fishing documentation from the Coast Guard, that participants in the buyback must also stand ready to take on specific penalties for bringing the vessels into any of the world's fisheries, and that the vessels cannot be exported because it is so much harder to keep track of what happens afterwards.

I see I am running overtime so I will just thank you for listening to me this far and hope that I can answer some questions if you have some later.

[The prepared statement of Mr. Blue follows:]

Statement of Gordon Blue, President, Crab Rationalization and Buyback (CRAB) Group

Good morning Mr. Chairman, Congressman Young, and Members of the Subcommittee, my name is Gordon Blue, I am the President of the Crab Rationalization And Buyback, or CRAB, Group. The CRAB Group is an organization of more than 80 vessels which prosecute the crab fisheries of the Bering Sea and Aleutian Islands area [BSAI], and is the largest organization of vessel owners in these fisheries. We appreciate this opportunity to present our views on Fishing Capacity Reduction programs, and role of Federal investment in fisheries and the reauthorization of the Magnuson–Stevens Fishery Conservation and Management Act. I will focus my testimony on the Capacity Reduction Program for Bering Sea and Aleutian Islands [BSAI] Crab Fisheries, authorized as a part of H.R. 4577, Department of Labor, Health and Human Services, and Education, and Related Agencies Appropriation Act, 2001, which passed on December 15, 2001. I would like to address issues of reauthorization of the Magnuson–Stevens Fishery Conservation and Management Act [MSFCMA] and the role of Federal investments in fisheries with respect to development of the Capacity Reduction Program, and as they mirror larger aspects of the fisheries.

The BSAI crab fisheries have been valuable contributors to the economies of Western Alaska and the United States. Proceeds of these fisheries have built infrastructure providing basic health, communications and transportation for the residents of the communities, as well as the processing plants and the vessels which deliver to them. I also add, they have provided for my family for 23 years; I've participated

in the BSAI crab fisheries variously as a crewman, captain, vessel manager, and vessel owner throughout that time.

Now these fisheries are in serious trouble. This is particularly distressing, because the most significant human factor in the decline of these stocks is one that we've recognized for a long time, worked hard to contain, and have been unable to accomplish, up until now. This factor is the excessive fishing capacity that has been brought to bear on the fisheries. In the crab fisheries especially, because of the positive ability to sort catch and return small and female crab to the sea relatively unharmed, the sheer number of vessels involved in a given fishery becomes an important factor in the unintended impact of the fisheries on the stocks. This occurs when the vessels of the fishery must cover areas of the grounds where small crab and female crab predominate, simply in order to find room to fish. In these conditions, the movement of gear by different vessels, searching the grounds for catch, begins to produce cumulative small injuries to the crab that are discarded, over and over, until the future of the fishery begins to be killed.

Since the re-authorization of the MSFCMA, in 1996, members of the CRAB Group have worked to see the implementation of an industry-funded buyout of excess capacity under provisions of Section 312 of the Act. We have received a great deal of encouragement and support from members of the industry, officials of NMFS, NOAA, the Department of Commerce, the States of Alaska, Washington, and Oregon, the North Pacific Fishery Management Council [NPFMC], members of Congress and staff persons, and we have seen our fisheries fall, one by one, as we've struggled to push through the mountain of paper the program requires. The crab buyback program enacted into law by H.R. 4577 provides for a capacity reduction program that will eliminate a reasonable measure of excessive capacity from the fisheries, and create enough room that we can work out the agreements to take us the next necessary step.

In the crab fisheries, we define fishing capacity as the ability to catch crab. Every incentive that brought me into the fisheries and has kept me there, has helped to improve my ability to catch crab. I am sure that is true for each of the other vessel owners and operators out there as well. Each of them has worked hard, struggled with incredibly difficult conditions, and survived thus far, and deserves to continue to survive. In the process, each vessel has accumulated a catch history that represents its ability to catch crab. Consequently, the CRAB Group has focused its efforts to retire capacity through the purchase of active catch history as well as the vessel to which that history is assigned. This purchase and sale is a voluntary transaction on the part of both parties, and is designed to provide for the satisfaction of both.

We have taken pains that the seller receives a fair price, by providing a reverse bid structure that encourages a sharp pencil, but allows the seller to bid what he wishes. We've provided for bids to be ranked, in order to assure that the seller offering the most benefit to buyers, in the form of catch history, receives the greatest opportunity to benefit himself. We have taken pains to assure that the buyer receives fair measure for his purchase. These include measures to forestall the mechanisms by which this value can become diluted. We have made real progress, by the terms of H.R. 4577, in the reduction of latent licenses. There are prohibitions on re-entry of sellers into the fisheries, and on the addition of new licenses to the fisheries after the sale. There is provision for the rebuilding of the fisheries. In the fishery year just past, my vessels and most others in the crab fleet, each were able to fish crab just 15–1/2 days, spread out over four months. New regulations designed to rebuild the fisheries have further reduced the allowable catch of crab. These regulations were designed to meet the stricter standards of the MSFCMA. We think that rebuilding stocks is the way to go, and that healthier crab fisheries will result from the long-term benefits of reduced exploitation rates. We believe that the sweeping changes mandated by the Act have just begun to be implemented, and that they should be let stand, so that benefits can begin to accrue.

We have examined the impacts of "input stuffing" in the fisheries, and have concluded that in the case of these fisheries, the fleet is now operating in a mode that is far below the capacity of each vessel. We acknowledge that the removal of real live capacity from the grounds also requires that some crew jobs are eliminated, and some vessels become more efficient. We declare that in the present circumstances of great hazard and dubious reward, to do so provides a real benefit, and not alone to the remaining crewmen, who may gain real fishing jobs as a consequence of a longer season. Recently, we have come to acknowledge that the harm that has occurred in our fisheries from an uncontrolled influx of new effort, cannot be allowed to be passed to other fisheries, in the form of vessels displaced by our capacity reduction. H.R. 4577 provides stringent measures that prevent this from occurring, anywhere in the world.

H.R. 4577 additionally provides a directive to the NPFMC to analyze a number of quota programs, and their impacts upon the harvesters, the processors, and the communities that depend upon these fisheries, and to report back to Congress. We believe that when this has been properly accomplished, that you will see how to properly establish general guidelines that will protect the resource, the communities and the larger public interests -as well as fishermen, vessel owners and processors, and that you will give the job of developing and implementing a rationalization program back to the experts, in our case, the NPFMC and NMFS.

Finally, H.R. 4577 includes a feature which we did not design in our program. As a consequence of greater costs than anticipated, to provide for rebuilding and lower exploitation rates in the rebuilt fisheries, to provide for the permanent revocation of all fishing rights, and as a consequence of our greatly reduced fisheries, the fisheries will not presently support the payments necessary to this program. H.R. 4577 includes a provision for an appropriation of $50 million - half of the cost of this program. We ask you for your support.

What follows in written testimony is a discussion of the development and features of the capacity reduction program, Thank you.

REGULATION OF THE FISHERIES

The Bering Sea and Aleutian Islands [BSAI] crab fisheries are prosecuted in the waters of the Bering Sea and North Pacific Ocean, in the U.S. Exclusive Economic Zone. These fisheries are managed jointly by the State of Alaska and the North Pacific Fishery Management Council [NPFMC] and National Marine Fisheries Service [NMFS], under a Federal Fishery Management Plan [FMP] approved by the Secretary of Commerce in 1989. This agreement reserves the authority to limit access to the fisheries, as well as to amend the FMP, to the NPFMC and NMFS. Fishery management measures necessary to protect the stocks of crab from impacts of other fisheries (such as trawl bycatch restrictions) are also undertaken by NPFMC/NMFS.[1]

Day-to-day regulation of the fisheries is performed by the Alaska Department of Fish and Game [ADFG], under regulations adopted by the Alaska Board of Fish [BOF]. The fisheries are managed as a number of different stocks, occurring in different areas, and at different times, starting between September 15 and January 15. These fisheries consist of several species in two distinct types, marketed as varieties of king crab and snow crab. Pots, or traps, are the only legal gear for the directed harvest of crab; retention of bycatch in any other fishery is prohibited. Regulations are in place to limit fishery input effort, protect stocks from incidental take, protect spawning and molting, protect habitat, eliminate the potential for ghost fishing of lost pots, require the discard of female or undersize male crab, prevent over fishing, and manage the excess of capacity through reduced seasons, rapid catch determination, satellite catch reporting, reduced time between announcement of closure and closure, and on-board fishery observers[2]. In 1998, the BOF concluded that the excess of capacity had overrun the ability of fishery managers to regulate the fisheries sufficiently to protect the stocks in all instances, by any of the means available to the State of Alaska, and asked the NPFMC to reduce the number of participants allowed.[3]

FISHERY MANAGEMENT STRATEGY

The harvest is governed by a Guideline Harvest Level [GHL] which is set according to management plan standards, annually, after a stock assessment model is evaluated, including data resulting from a summer trawl sample of the Bering Sea. The trawl sampling (survey) data are compiled and tabulated by NMFS and stock dynamics are modeled by ADFG, which then sets GHL, according to standards established in the harvest strategy for each fishery. A pertinent biological index, as for example, "effective spawning biomass" in the bairdi tanner crab fisheries, has been established for each principle fishery. Population thresholds which govern allowable exploitation rates as a function of current population estimates, provide a matrix of occurrences, from closure of the fishery, through low levels of exploitation for rebuilding (10% of mature males, in the Bristol Bay king crab fishery), and finally, to higher levels in robust stock conditions.

The management strategy which had been under development and review since 1991,[4] established a more precautionary approach to management of the fisheries. A primary motivation for this work was that stocks of crab elsewhere in the State of Alaska had sustained fisheries at high levels, then entered a decline. Many had not recovered, even after significant periods of time.[5] Although the crab fisheries of the BSAI were generally in good health, the Bristol Bay red king crab had suffered a dramatic failure in 1982, and had not recovered to former levels. Development of the new harvest strategy first established a new stock recruitment model

for the Bristol Bay red king crab, based upon the length of recruits rather than strict stock aging, to account for the incremental growth pattern of crab, which is accomplished at risk, through molting of the shell. The model recognized that factors of climate and weather impact recruitment rates with greater variability and less predictability than had been appreciated in the older population model.

As a necessary consequence, there has been less allowable harvest of Bristol Bay red king crab than would previously have been the case, since 1996[6]. The overall harvest strategy has since been adapted for differing biology and knowledge, to provide the elements governing rebuilding requirements of the Magnuson Stevens Fishery Conservation and Management Act [MSFCMA][7], particularly with respect to the Bering Sea bairdi[8], St. Matthew Island blue king[9], and Bering Sea opilio[10] crab fisheries.

CONDITION OF THE FISHERIES RESOURCES

The management strategy has withstood a test before the courts, and is now accepted by the fleet, even if with some reluctance. In the first year since all of the rebuilding plans have been established, three BSAI FMP fisheries have been closed for rebuilding (St. Matthew Island blue king crab, Pribilof Island red and blue king crab) two have continued to be closed for rebuilding (Bering Sea bairdi crab and Adak red king crab), and the Bristol Bay red king crab and Bering Sea opilio [snow] crab fishery have been operated at reduced exploitation rates, as they were in the 1999/2000 fishing year.

The reduced exploitation rates applied to the crab fisheries, have resulted in lower allowable rate of catch, but the reduction in rate of catch was triggered by declines in population. The tonnage of product delivered from the fisheries in 2000, is twelve percent (12%) of that delivered in 1990.[a] There have been stock fluctuations in the intervening years, but the most significant decline was noted for the opilio crab resource, after the fishery of 1999. In the language of the writers of the report of the results of the 1999 summer survey: "Abundance has declined precipitously to below threshold and is now defined as over fished. Exploitation rate has been reduced to 22%. Little recruitment is apparent, and the fishery may be closed next year [11] This decline continued into the present year [12], and, although the annual summer survey cruise that will produce data for the determination of the 2002 fishery has yet to occur, the condition of stocks observed on the grounds during the directed fishery was not encouraging.

The opilio population decline and its associated effects were of sufficient impact to require a declaration of fishery disaster by the Governor of the State of Alaska and the Secretary of Commerce, in the spring of 2000. One community, St. Paul Island, derives most of its annual revenue from the snow crab fishery, and has been particularly hard-hit. The conservation benefits which are designed to accrue to future fisheries have also acted to increase the present problems of excess capacity in the fisheries, and their broader impacts.

CHARACTERISTICS OF THE FLEET

Vessels involved in the fisheries must withstand wintertime conditions in the Bering Sea, and be capable of competitive fishing in cold and fierce seas. Catcher vessels are typically 91 to 125 feet overall length (73% of the fleet[13]), and cost $1 million to $3 million. Vessels are generally owned by partnerships or limited liability companies formed of a few investors, mostly individuals actively involved in the fisheries in some capacity, and very often owners include the principal Captain of the vessel. There is a fleet of approximately 235 vessels that are especially outfitted for these fisheries and primarily dependent upon them.[b]

Crew sizes vary between fisheries, with a typical catcher operation carrying five to seven persons on board. "Input stuffing" in the form of additional crewmen, was a prevalent practice during the years of greatest opilio harvest, 1991–95. There are disincentives to much larger crews, however - both as increased cost in liability coverage, and, with ten or more, crewmen become employees, rather than co-venturers. During the years 1991–1995, the maximum fishing capacity of the fleet and supporting industries attained sustained harvest rates above 30 million pounds per week. Fleet size peaked in the fishery in 1994, with 273 vessels participating for some part of the fishery.

A 1997 survey of vessel owners[14] indicated that 81% qualified as small business entities, under the provisions adopted by NMFS for the region. Consolidation, both among vessel owners and processors, as well as an increased degree of vertical integration between harvester and processor owners, had been occurring already at that

[a] See appended tables: Harvest, BSAI Crab Fisheries, 1976 - 2000.
[b] See appended tables: Vessels delivering, BSAI FMP crab fisheries.

time, and has been increasing since. Primary causes of this consolidation are economic.

These economic pressures for consolidation of ownership interest are heightened by excess of fishing capacity in the BSAI crab fisheries and manifest in a number of factors. Processing companies have increased their shares of vessel ownership, whether by design, or through failed notes to troubled owners. Vessel owners struggling to maintain income in an era of falling revenues have added units of production. Since 1995, when NPFMC asked NMFS to implement a limited entry program, new vessel construction has diminished, and existing vessel acquisition has increased. Some vessel owners have acquired "fishing rights" in anticipation of increased value due to the License Limitation Program [LLP], implemented in 2000, and revised in 2001. A feature of the LLP, as implemented, provides incentive for consolidation. Although the total number of LLP licenses for crab is high, the fishing rights represented by the license are actually a binomial nomenclature, with specific fisheries "endorsements" attaching to each license. Fishing rights are not allowed to be severed from the license, however licenses are allowed to be "stacked" within limits, on a given vessel. This scheme makes it necessary for a vessel owner wishing to pursue a fishery for which the vessel was not issued an endorsement, to acquire, and "stack" the entire license of another vessel, in order to pursue that fishery. The licenses available for stacking are drawn from the pool of vessels which have sunk, or otherwise departed the area fisheries. These "latent licenses" might otherwise reenter the fisheries on new vessels. Excess capacity is helping to drive consolidation of vessel ownership, but not reducing the fishing capacity of the fleet in these fisheries.

ECONOMIC IMPACTS ON THE FLEET

One of the results of overcapacity in fisheries is that revenues decline. Average gross revenues per vessel in the opilio fishery are shown in the adjacent table. Note that these revenues broadly follow the population trends, and are impacted by capacity, as represented by number of vessels. Also bear in mind that trends in other crab fishery populations which have augmented vessel income in the past, have similarly been in decline, in some cases, fisheries have been closed, for rebuilding.[c]

The peak per vessel revenue year in this fishery occurred in 1995. As stocks declined, a number of newer vessels left the fishery, both for domestic fisheries elsewhere, and foreign fisheries. In addition, the ex-vessel price was the highest received. This trend abruptly turned in 1996, when the resource continued to show low levels of recruitment, although "prerecruit (stocks one year away from fishing size) levels showed that a "recruitment spike" (a single year class) was likely to be entering the fishery the following year. Vessel revenues buoyed in 1997 as this population component entered the fishery.

Once again, ex-vessel price supported revenues for one year after the stocks began to diminish, even though a number of vessels re-entered the fishery in 1999. Both harvest and revenue fell dramatically in 2000. The differences represented by the declines of harvest in 1995 and 1999 are greater than the impact of the new "rebuilding strategy." Population structures, described above, in "Condition of the Fisheries Resources," indicate that the time required to rebuild stocks is likely to be greater than previously.

COMPETITIVE PRESSURES

Pressures of increasing competition in the fisheries have several impacts. The vessels in the fisheries resort to "capital stuffing," which reduces return to investment. In the BSAI crab fisheries, many older vessels were replaced, between 1986 and 1994. Much of this activity involved Capital Construction Fund [CCF] activity, and an appreciable amount of that was from Fishing CCF qualified withdrawals. An even greater benefit, however, was received by vessel owners who brought vessels converted from oilfield support activity into the fisheries through conversion. This benefit derived from a coincident decline in oilfield activity, and the retirement of many of the support vessels that had been built under terms of MARAD administered CCF agreements, which were then available at very favorable cost, for conversion to crab fishing platforms.

It is in the nature of unforeseen events, that efforts of government, in this case, the NPFMC, which was working to establish programs to deal with excessive capacity, can become undermined by other programs of government. Rather than abolish programs, such as the CCF, that continue to produce needed benefits, it is suggested that programs be designed with the ability to monitor their impacts, and to provide inputs to affect program performance according to both the original program intent,

[c] See attached Table: Fleet gross revenues, BSAI FMP crab

and to allow moderate corrections should specific instances of program success begin to produce undesirable results. In the instance of the BSAI crab fisheries, the implementation of the capacity reduction program, and an incentive to deposit capital proceeds of a buyback sale of fishing rights, for instance, to a retirement account, would provide for the documentation of capital removed from the fisheries. Similarly, the fishing vessel CCF, through administrative or regulatory changes, could provide for a one-time constructive withdrawal of funds from vessel CCF accounts, to a retirement account. This would provide for a "deconstructive" use of the CCF, and a supervised exit of capital from fisheries that are manifestly suffering, at present, from an excess of capacity. In the absence of such deconstructive incentive, we have seen CCF holders bring new vessels into these struggling fisheries, as qualified constructive withdrawals, rather than be compelled by fund administrators to take a penalty-producing non-constructive withdrawal of funds.

Many of the existing vessels in the fleet increased capacity between 1995 and 1999 by "sponsoning" to greater width. Some lengthened as well. These measures were felt as imperatives by individual operators, due to the necessity to fish in tougher weather conditions, at greater distance from markets, and further offshore. The shift, from new vessel acquisition to existing vessel conversion, was in response to changes in access to the fisheries, discussed below. In the aggregate, of course, the individual imperatives to compete drove the problems of capacity further ahead than "fleet number" alone would indicate.

As vessels became larger and more effective, gear restrictions were imposed. Pot limits were instituted in the 1992. Due to a court challenge, the first pot limit was redesigned, producing a "tier" which allowed more pots according to vessel size. This created an incentive for vessels to lengthen into the upper tier. These capacity enhancements combined with the attempt at effort limitation to change fishing behaviors. Gear soak times dropped as vessels sought to stay busy, under the reduced soak times. Pots began to be "shuffled" more routinely across the grounds, rather than targeted on an optimum spot and reset. This was a consequence of the shorter soak times, the larger, more efficient vessels, and the declining stocks. One impact of this, is that handling mortalities of regulatory discards has risen. Rather than former searching behaviors, which resulted in the ability to identify select fishing spots for size and quality of catch, it became the norm for one vessel after another to make a pass through the same ground, and the reiterative impacts of repeated small handling injuries to crab created additional fishing induced mortalities in the immature and reproductive reserve stocks, due to the increase in capacity.

The combined effects of fishery closures and diminished quotas are such, that the fishing fleet in the BSAI FMP crab fisheries suffered a steep decline of gross revenues, following upon a period of capital and other input stuffing that maximized vessel productivity, at significant cost and reduction of net revenue. The fleet gross revenues in 2000 were 35% of those available in 1990. Revenue thus far in 2001 has continued to fall: the opilio fishery produced only 62% of the gross revenues available in 2000. If the "break-even" income for a vessel engaged in the opilio fishery is taken to be $500,000 (a number that is too low, when other crab fisheries are curtailed), then the vessel gross revenues in the table show clearly that for four of the past six years, vessels have operated at loss in the fishery. The "ripple effect" of these combined losses in local economies has begun to take on the character of steep seas sweeping through some communities, which have suffered reduced tax revenues (a function of raw fish price), municipal and other layoff of workers, general economic slowing, and increasing transportation difficulties as airline service levels have dropped and freighter schedules become less frequent - in short, increased isolation, fewer goods in local stores, lower quality of food as fresh food supplies age and dwindle, loss of income and occupation. In addition to short-term support the communities require a long-term reduction of capacity in these fisheries as much as does the fleet. This is required to promote economic stability, which will augment, and enjoy, any benefits of future resource rebuilding.

THE RACE FOR FISH

The opening date and time for each fishery for which a GHL has been determined, is set by statute. Vessels are required to be licensed, as are the vessel operator and crewmen. Permits must be acquired for each fishery, and vessels must be registered prior to entering a fishery. The registration process includes a "tank inspection", typically performed within two days of the start of the fishery; the tank inspection assures that no crab are on board; there is a pot tag, unique to each season and fishery, required for each pot allowed, which must be displayed on the buoy of any pot on board the vessel or actually used in the fishery. No pots are allowed to be set before the opening time, and aircraft with sophisticated surveillance equipment,

as well as vessels, of both the State of Alaska and the US Coast Guard, patrol the grounds, looking for violations.

Fisheries are closed by the managers, when it is estimated that the GHL has been attained. Managers may allow catch in excess of the GHL, or stop the fishery short of GHL, depending upon the rates of catch and the manager's reappraisal of stock conditions. Fisheries which ran for months have, within the past decade, been reduced to days.[15] A fishery closure may be announced with as little as twelve hours notice. In certain conditions, the closure announcement may be made for a specified time period, before the start of fishing. In this mature stage of competition, there is no margin for error. The first boat to the crab takes the most, and the rest of the fleet is not far behind. "Hot spots" and accumulations of legal stocks are soon caught up. Delays for any purpose, result in irrevocable loss of diminishing opportunities to fish - this management regime is well described as "the Olympic system.

SAFETY

The conditions of weather and climate of the region during the winter have helped to make these fisheries among the most dangerous of occupations, and those who fish for crab are at the greatest risk for fishing-related fatalities. This is aggravated by the management system, and risks have been made acute by the fishing power of the fleet and the decline of stocks.[16] Beginning in 1999, and continuing through 2000 and 2001, U.S. Coast Guard [USCG] officers began boarding vessels during the preseason tank inspection period, in order to make an assessment of the preparation of the vessels. They found a "surprising" proportion of licensed captains - half of the vessels boarded, even though there is no legal requirement for licensing. They found safety equipment above that required, a very high degree of compliance with stability and lading characteristics of the vessels, and that a large percentage of vessels had participated in voluntary U.S.C.G. dockside safety examinations.[17]

Although the boardings have helped to keep the importance of safety in the minds of captains and crews, they have also served to demonstrate that competence alone will not serve to reduce these risks. Spurred to a more proactive approach, USCG and ADFG arrived at an understanding of mutual authorities that allowed ADFG to postpone the start of the October 2000 Bristol Bay king crab fishery while a forecast storm system with winds of 60 knots and 45 foot seas passed through.[18] Once a fishery is underway, however, there is no mechanism for such closure. Operating far at sea, with fisheries openings that are only days in length, fleets are unable to avoid weather that comes up during the openings. "Hurricane-force winds. Waves crashing through pilothouses. All that, and the fleet didn't even reach the quota, thanks to more bad weather . . ." read the opening of one report of the 2001 opilio season.[19] Overcapacity has lethal effects in the BSAI crab fisheries.

A MORATORIUM ON ACCESS

One of the ways in which fishery managers have attempted to control fishing capacity, is effort control through limiting access to the fishery resources. This has taken a number of forms throughout the nation. One constant, which was noted during the investigations of the Federal Fisheries Investment Task Force, is a necessary result of open, public process. In each case for which a regional Fishery Management Council has proposed a future access control system, the number of participants in the affected fishery has risen, in anticipation of the closing window of opportunity, frequently to the dismay of the regulators. The particular path of access limitation in the BSAI crab fisheries is described, with respect to impacts on capacity in the fisheries. It will be seen that the Capacity Reduction program for BSAI crab has become a crucial component of this program development.

In 1992, the NPFMC voted to establish a moratorium on new entrants to the BSAI crab and groundfish fisheries. This moratorium, which would have allowed more than 700 vessels into the BSAI crab fisheries, was not implemented by the Secretary of Commerce, until 1995. During this interregnum, the NPFMC proposal spent most of its time on the desk of the Regional Administrator, in Juneau. This turned out to be an astute judgment, from an administrative viewpoint. The NPFMC decision was announced to the public in the usual manner, and the behavior of investors in the fisheries underwent a shift. Rather than undertake a project with the additional burden of risk arising from indeterminate actions of government, and in face of such a clear statement of intent by the NPFMC, investors began to create agreements involving the sale of future fishing rights arising under the proposed moratorium. Before long, a regular market in "moratorium rights" was trading through boat and permit brokerages at $1,000/foot of vessel length, even though there were no such rights in law. No method to determine whether this trade had any impact on capacity in the fisheries has suggested itself, however it

is clear that commercial agreements helped to establish the legitimacy of the regulation.

At the outset, the NPFMC recognized there was little benefit to controlling capacity, in establishing such a broad, inclusive class. Nevertheless, it was apparent that the groundfish fisheries had become fully utilized by the domestic fleet within a very few years (many had been vessels fleeing the collapse of the red king crab fishery in 1981 - 82) and that additional capacity was building and entering the fisheries. As a part of the moratorium deliberations, the NPFMC adopted the goal of an incremental approach to fishery rationalization, called the Comprehensive Rationalization Plan, which recognized that the spillover of vessels made surplus by the rationalization of a fishery, could create disruptive increases in the levels of capacity in other, not rationalized, fisheries. For this and other reasons, the NPFMC determined the most reasonable course for development of further rationalization programs (halibut/sablefish was already in development), was to move rationalization ahead in all the fisheries under its jurisdiction, simultaneously.

THE LICENSE LIMITATION PROGRAM

The second phase of the NPFMC Comprehensive Rationalization Plan was to establish a limited entry system for the fisheries of the region. The License Limitation Program [LLP] for Bering Sea/Aleutian Island Crab and Groundfish was adopted by the NPFMC in 1995. Not coincidentally, the moratorium on entry was implemented by the NMFS, in the same year. Again, the parameters for inclusion were broad. The LLP resulted in 542 potential licenses in the crab fisheries, when program implementation by NMFS finally occurred, in 2000. This number includes 168 licenses which were issued as "interim" or "non-transferrable." Interim licenses were issued under appeal from license-holders and are under administrative review by the Restricted Access Management [RAM] division of the NMFS. Although a certain number of appeals may eventually result in denial of a license, this is a long-drawn procedure. Additionally, and recalling the binomial nomenclature of the LLP license discussed under "Characteristics of the Fleet," relatively few of the "umbrella" LLP licenses are in dispute. Far more common, is the appeal of one or more endorsements, by vessel owners seeking to continue participation in specific fisheries.

One of the observations to be made, with respect to this initial LLP program for crab, is that the total number overestimates the vessel capacity that is of concern to the BSAI Capacity Reduction program. Included are licenses which qualify 64 vessels to fish in the Norton Sound red king crab fishery, and no other BSAI crab fishery. This fishery has been exempted from the Capacity Reduction program, because it consists of a small-boat near-shore "super-exclusive" registry (that is, vessels engaging in the fishery can take part in no other king crab fishery) summer season fishery of opportunity for local vessels of the Norton Sound area, which tend to have a higher dependence on other fisheries in the area. Additionally, there are two vessels which have been issued interim licenses, with NO endorsements. Deducting the vessels described above, the LLP qualified 476 vessels to fish in the BSAI FMP crab fisheries. This represents a considerable burden in latent capacity, given that the primary economic activity of the fisheries has the regular participation of a fleet of about 235 vessels.

A NATIONAL MORATORIUM ON "RATIONALIZATION"

By 1996, many participants in the BSAI crab fisheries were convinced that it was time to move forward to the next phase of rationalization with establishment of Individual Transferable Quotas [ITQs]. An even greater number were opposed. This opposition included new entrants to the fisheries, processing interests, who felt the program would detract from their degree of control of the fishery resources, and the State of Alaska, which was in the throes of a sharp reaction to the establishment of the halibut/sablefish program. In this light, every defect of the program was magnified, and some intended features (such as a very moderate consolidation of effort) were re-characterized as defects. Alaska and National opposition resulted in a four year moratorium on establishing new Individual Fishery Quota [IFQ] programs, nationwide, as a provision of the MSFCMA. This stopped progress on the NPFMC development of the third phase of its Comprehensive Rationalization Plan.

THE CRAB BUYBACK PLAN

Section 312 of the MSFCMA provided for industry-funded buybacks of effort, as a potential method of reducing capacity in the nation's fisheries. Crab fisheries were feeling the impacts of excess capacity, on the resource, and on revenues. The CRAB Group formed to explore the viability of this approach.

The process described in section 312 seemed to offer a streamlined process for the accomplishment of an industry-funded program. Rather than the familiar lengthy Council process, which then was passed to NMFS for approval and implementation,

the Act described a process which allowed a fishery management council, or the Governor of a state, to request such a program, and the Secretary of Commerce to act upon that request, and design and implement the program.

Interest was high, and between December, 1996 and June, 1997: The group formed as a non-profit corporation, with an active and diverse board; researched national and international buyback programs; complied a database of vessel registrations from State of Alaska Commercial Fisheries Entry Commission records (there was nothing yet available from NMFS) which identified vessels, vessel owners, and historic participation in the fisheries, during the LLP qualification years and afterward, as well as current flags and activities for most vessels of record; conducted public meetings together with NOAA Office of Sustainable Fisheries, in Seattle and Kodiak; held additional public meetings in Seattle, Kodiak, and Anchorage; met with legislators at both State and National levels, fishery regulators at NMFS and in the states of Washington and Alaska; commissioned a survey of the vessel owners, and an analysis of the legislative basis for an industry-funded buyback; and reported to the NPFMC.

By September, 1997, an economic study for a model plan was completed by KPMG Peat Marwick, a draft business plan was prepared, both were submitted to NPFMC. NPFMC then sent a letter requesting that the Secretary of Commerce work with the CRAB Group to develop and implement a Section 312 buyback plan for the BSAI FMP crab fisheries. By December, CRAB Group studies, plans and a lengthy memo concerning possibilities for a framework regulation for the program were carried to NMFS headquarters to initiate the process. One element of concern identified by KPMG was the number of latent licenses that were potentially destined for the fisheries.

Rapid program development was made possible by the fortunate occurrence of sufficient and complete data. All landings of BSAI crab are recorded upon a fish ticket, which is a legal instrument in the State of Alaska. Fish ticket information includes species, weight, price, date, time, area caught, dates caught, vessel name and the name of the permitted deliverer. Landing taxes are noted on the fish ticket, and deducted from payment. Taxes are collected by the raw fish buyer on behalf of state and local government. Observers are required to be present for all processing operations. No live (unprocessed) crab is allowed to be exported from the State of Alaska on board vessels. If a vessel both harvests and processes crab on board, an observer is required to remain aboard until all product is discharged. Vessel licenses, interim use (delivery) permits and crew licenses all require annual renewal, and the records compiled by the State of Alaska. in administration of licenses were essential for the early identification of participants in the fisheries.

AMENDMENT 10

In December, 1997, the NPFMC Industry Advisory Panel began an effort to reduce the number of LLP licenses to be issued, by requiring current participation in the fisheries. Economic analysis and necessary staff time were budgeted by the NPFMC to move the process forward. Amendment 10 established a minimal landing requirement, one landing of any species of crab, in any of the three years since final action on the LLP. This provision resulted in the elimination of approximately 90 latent licenses, resulting in 286 projected licenses for the crab LLP. Final action by the NPFMC took place in June, 1999.

In August of 1999, the results of the Bering Sea summer research cruise, and the preliminary stock assessment for the 2000 fisheries described a fishery stock failure. This occurred despite the attempts of industry to reduce capacity in the fisheries, and of fishery managers to limit fishery efforts to sustainable levels. The NPFMC continued to work at program development. In January, 2000, the LLP program was implemented. Notices mailed to initial recipients cautioned that the program was under revision, and that licenses were issued for one year only. Work aimed at implementing Amendment 10 proceeded.

EXTENSION OF THE NATIONAL MORATORIUM

In late 1999, an ad hoc industry committee formed, to examine the possibility of establishing harvesting cooperatives, similar to those of the Whiting Conservation Cooperative or the Pollock cooperatives authorized under the American Fisheries Act, in the BSAI crab fisheries. The process was to initiate discussion of the elements that would need to be present to succeed in adopting such allocation structures. A parallel committee was formed, to determine unresolved issues facing the CRAB buyback, and advance its implementation.

By June, 2000, the ad hoc cooperative committee had adopted a plan to achieve quota shares, rather than cooperatives, and to seek Congressional support. The moratorium on new IFQ programs expired, in October of 2000. The ad hoc committee

plan for rationalization described Individual Transferable Fishing Quotas [ITQs] to harvest crab, Individual Transferable Processing Quotas [IPQs] to process crab (a tough sell in Alaska and elsewhere in the country), and a Regional Landing Requirement to stabilize the historic pattern of deliveries, and protect communities from the migration of deliveries away, in a rationalized fishery. In December, the moratorium was extended for two more years.

CAPACITY REDUCTION PLAN FOR THE BSAI CRAB FISHERIES

In April, 2000, NPFMC Chairman Rick Lauber sent a letter to the Secretary of Commerce, describing the resource problems of the BSAI crab fisheries, and the problem of excess harvesting capacity. The letter described a "two-step" process, and asked the Secretary first, "to seek congressional assistance to support a vessel buyback program using a combination of appropriations, Federal loans, and modifications of the Capital Construction Fund as appropriate.

Secondly, the letter asked the Secretary to " . . .support our efforts to further rationalize these critical crab fisheries. We are committed to working toward the reduction of fishing capacity, which fully comports with NOAA Fisheries Strategic Plan to alleviate overcapitalization in 15% of Federally managed fisheries by 2004.[20]

In June, 2000, the ad hoc buyback committee met, in Portland, Oregon, and resolved final details of the program. The period of consideration for catch history to be retired under the plan was to be the most recent five years in the years 1990 to 1999, when a fishery was open. The amount of appropriated funds requested was to be $50 million, with a $50 million loan to be repaid by industry. This amount was calculated to be capable of payback at reduced levels of harvest mandated by the new harvest strategies adopted by the Board of Fish in 1999 and 2000. Given the uncertainty of fishery openings in the years just ahead, the term of the loan was requested to be extended to 30 years. Finally, in response to the concerns of participants in other fisheries, the vessels which were attached to the fishing rights and history purchased under the buyout, would lose the right to participate in any fishery, anywhere in the world. In the US, this could be accomplished through the permanent retirement of the vessel fishery endorsement to the Vessel Documentation.

On December 15, 2000, H.R. 4577, Section 144, (d)(1) - (6) defined and authorized a Capacity Reduction Plan for the BSAI Crab fisheries, whose purpose " . . . is to implement a fishing capacity reduction for the BSAI crab fisheries that results in final action to permanently remove harvesting capacity from such fisheries prior to December 31, 2001.

COMPREHENSIVE RATIONALIZATION OF THE NORTH PACIFIC FISHERIES

H.R. 4577 of December 15, 2000, Section 144. (2)(a) provides " . . .The North Pacific Fishery Management Council shall examine the fisheries under its jurisdiction, particularly the Gulf of Alaska groundfish and Bering Sea crab fisheries, to determine whether rationalization is needed. In particular, the North Pacific Council shall analyze individual fishing quotas, processor quotas, cooperatives, and quotas held by communities. The analysis should include an economic analysis of the impact of all options on communities and processors as well as fishing fleets. The North Pacific Council shall present its analysis to the appropriations and authorizing committees of the Senate and House of Representatives in a timely manner.[21]

In December, 2000, the Chairman of the NPFMC, David Benton, named two committees, the Gulf Rationalization and the BSAI Crab Rationalization committees, to develop elements and options for the analysis mandated, above. The Crab Rationalization committee met three times, and reported to the NPFMC at its April meeting. After NPFMC discussion, the Council Chairman addressed a letter to Secretary of Commerce Donald Evans, describing the actions of the NPFMC relative to the analytic requirements of H.R. 4577: " . . .analysis could be completed later this year, in time for Council consideration in December, with final action likely in February of 2002. Once completed, we would also forward that analysis to Congress . . ." The letter continues, "As part of the overall process to rationalize the crab fisheries, I also want to reiterate our Council's support for the buyback program which was also legislated in the recent appropriations bill. Such a buyback will be a very important first step in the rationalization process, and availability of the authorized Congressional funding of $50 million will likely be critical to the success of the buyback program.[22]

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TABLE 1	HARVEST, BSAI FMP CRAB FISHERIES (lbs.)								
ADF&G TABLE	4-6	3-2	4-4	5-12	5-7	5-2	5-21	5-28	
Year\Fishery*	Adak RKC	DH BKC**	Adak BKC**	St. Matthew	Pribilof ++	BB RKC	Bairdi	Opilio	Total
1976	no fishery	no fishery	no fishery	no fishery	6,600,000	63,000,000	22,200,000	no fishery	**91,800,000**
1977	900,000	no fishery	no fishery	1,100,000	6,300,000	69,200,000	51,200,000	no fishery	**128,700,000**
1978	800,000	no fishery	no fishery	1,900,000	6,300,000	86,400,000	66,400,000	1,700,000	**163,500,000**
1979	450,000	no fishery	no fishery	210,000	5,700,000	104,200,000	4,250,000	31,400,000	**146,210,000**
1980	1,400,000	no fishery	50,000	****	10,700,000	128,089,795	36,500,000	39,300,000	**216,039,795**
1981	1,600,000	100,000	1,200,000	4,600,000	9,100,000	32,880,079	29,600,000	50,500,000	**129,580,079**
1982	1,700,000	1,100,000	7,800,000	8,700,000	4,400,000	2,905,376	10,900,000	28,300,000	**65,805,376**
1983	1,900,000	1,800,000	8,000,000	8,600,000	2,200,000	no fishery	5,200,000	24,800,000	**52,500,000**
1984	1,400,000	1,500,000	3,100,000	3,700,000	300,000	4,146,805	1,200,000	26,000,000	**41,346,805**
1985	900,000	1,900,000	11,100,000	2,400,000	500,000	4,168,517	3,100,000	64,900,000	**88,968,517**
1986	700,000	1,800,000	12,500,000	1,000,000	300,000	11,109,807	no fishery	96,600,000	**124,009,807**
1987	1,200,000	1,400,000	7,800,000	1,100,000	700,000	12,168,679	no fishery	100,900,000	**125,268,679**
1988	1,600,000	1,500,000	9,000,000	1,300,000	no fishery	7,364,258	2,200,000	130,800,000	**153,764,258**
1989	1,100,000	1,800,000	10,100,000	1,200,000	no fishery	10,183,457	7,000,000	147,600,000	**178,983,457**
1990	700,000	1,700,000	5,100,000	1,700,000	no fishery	20,245,815	64,200,000	160,000,000	**253,645,815**
1991	900,000	1,400,000	6,200,000	3,200,000	no fishery	17,058,224	31,500,000	325,200,000	**385,458,224**
1992	1,300,000	1,300,000	4,800,000	2,500,000	no fishery	8,034,018	35,100,000	313,000,000	**366,034,018**
1993	700,000	920,000	4,600,000	3,000,000	2,600,000	14,500,000	12,800,000	229,200,000	**268,320,000**
1994	200,000	1,700,000	6,400,000	3,700,000	1,300,000	no fishery	7,600,000	148,000,000	**168,900,000**
1995	38,941	2,000,000	4,900,000	3,100,000	2,100,000	no fishery	4,200,000	74,000,000	**90,338,941**
1996	no fishery	3,200,000	2,600,000	3,100,000	1,100,000	8,380,000	1,800,000	64,400,000	**84,580,000**
*1997****	no fishery	5,300,000	**	4,600,000	1,270,000	8,700,000	no fishery	117,100,000	**136,970,000**
1998	15,000	5,940,000	**	2,870,000	1,030,000	14,300,000	no fishery	243,300,000	**267,455,000**
1999	no fishery	5,420,000	**	no fishery	no fishery	11,100,000	no fishery	184,500,000	**201,020,000**
2000	no fishery	*3,630,000*	*ongoing*	no fishery	no fishery	*8,108,108*	no fishery	*33,583,466*	**45,321,574**

TABLE 3	VESSELS DELIVERING: BSAI FMP FISHERIES								Registrations	Largest
Year\Fishery*	Adak RKC	DH BKC**	Adak BKC	St. Matthew	Pribilof	BB RKC	Bairdi	Opilio	TOTAL (r)	Fleet (f)
1986	33	17	62	38	16	159	no fishery	103	428	159
1987	71	22	46	61	38	236	98	171	743	236
1988	73	21	74	46	no fishery	200	98	168	680	200
1989	56	13	64	69	no fishery	211	179	189	781	211
1990	7	16	13	31	no fishery	240	255	220	782	255
1991	10	11	16	68	no fishery	302	285	250	942	302
1992	12	10	18	174	no fishery	281	294	254	1,043	294
1993	12	4	21	92	112	292	261	254	1,048	292
1994	20	14	34	87	104	no fishery	183	273	715	273
1995	4	17	25	90	127	no fishery	196	253	712	253
1996	no fishery	14	13	122	66	196	135	234	780	234
1997	no fishery	13	6	117	53	256	no fishery	226	671	256
1998	NA	14	3	131	57	275	no fishery	229	709	275
1999	no fishery	15	NA	no fishery	no fishery	257	no fishery	241	513	257
2000	no fishery	15	NA	no fishery	no fishery	244	no fishery	231	490	244

					10 YEAR AVERAGE INCOME, 1990 through 1999 =>				$253,592,688
					10 YEAR AVERAGE INCOME, 1989 through 1998 =>				$239,956,704
TABLE 5	FLEET GROSS REVENUES, BSAI FMP ($)				10 YEAR AVERAGE INCOME, 1986/7 through 1995/6 =>				$241,819,414
Year\Fishery*	Adak RKC	DH BKC**	Adak BKC	St. Matthew	Pribilof	BB RKC	Bairdi	Opilio	Total (i)
1976	NA	no fishery	NA	NA	3,828,000	36,540,000	4,218,000	NA	>45,000,000
1977	NA	no fishery	NA	NA	6,993,000	76,812,000	15,360,000	NA	>100,000,000
1978	NA	no fishery	NA	NA	7,749,000	106,272,000	25,232,000	646,000	>140,000,000
1979	NA	no fishery	NA	NA	5,757,000	105,242,000	2,210,000	9,420,000	>123,000,000
1980	1,288,000	no fishery	50,000	NA	9,600,000	115,300,000	19,000,000	82,500,000	>230,000,000
1981	3,216,000	200,000	2,400,000	NA	13,600,000	49,300,000	17,200,000	13,100,000	>100,000,000
1982	5,848,000	3,300,000	23,400,000	NA	13,400,000	8,800,000	11,500,000	20,700,000	>87,000,000
1983	6,517,000	5,500,000	23,200,000	25,800,000	6,600,000	no fishery	6,200,000	8,700,000	82,517,000
1984	2,940,000	2,000,000	6,100,000	6,500,000	100,000	10,800,000	1,100,000	7,800,000	37,340,000
1985	1,935,000	3,800,000	27,800,000	3,800,000	1,400,000	12,100,000	4,300,000	19,500,000	74,635,000
1986	2,695,000	5,100,000	37,600,000	3,200,000	1,200,000	45,000,000	no fishery	60,000,000	154,795,000
1987	4,800,000	4,000,000	23,500,000	3,100,000	2,800,000	48,700,000	no fishery	75,700,000	162,600,000
1988	8,000,000	4,500,000	28,700,000	4,000,000	no fishery	37,600,000	4,800,000	100,700,000	188,300,000
1989	4,620,000	6,300,000	30,200,000	3,500,000	no fishery	50,900,000	20,300,000	110,700,000	226,520,000
1990	2,800,000	5,100,000	15,200,000	5,700,000	no fishery	101,200,000	89,800,000	102,400,000	322,200,000
1991	2,700,000	2,800,000	15,400,000	9,000,000	no fishery	51,200,000	47,300,000	162,600,000	291,000,000
1992	6,565,000	3,300,000	9,900,000	7,400,000	no fishery	40,000,000	58,800,000	156,500,000	282,465,000
1993	2,709,000	1,900,000	11,200,000	9,700,000	13,000,000	55,100,000	31,600,000	171,900,000	297,109,000
1994	1,100,000	6,900,000	20,400,000	15,000,000	8,600,000	no fishery	28,500,000	192,400,000	272,900,000
1995	105,141	5,000,000	9,600,000	7,100,000	6,800,000	no fishery	11,700,000	180,000,000	220,305,141
1996	no fishery	6,592,000	5,798,000	7,533,000	3,290,000	33,520,000	4,734,000	86,296,000	147,763,000
1997***	no fishery	11,925,000	**	10,166,000	3,700,000	28,362,000	no fishery	92,509,000	146,662,000
1998	NA	12,474,000	**	5,366,900	2,400,000	37,752,000	no fishery	134,650,000	192,642,900
1999	no fishery	16,693,600	**	no fishery	no fishery	69,486,000	no fishery	162,360,000	248,539,600
2000	no fishery	12,886,500	*ongoing*	no fishery	no fishery	39,324,324	no fishery	*62,129,412*	114,340,236

* All data conforms to latest available presentations - Regional Information Report No. 4K97-41, July 1997 & appended material (enclosed) This material differs in presentation from earlier versions, particularly in the manner in which it is tallied to a given year.

** After 1985, the Aleutian brown king crab districts were redefined, with a shift in the boundary between the districts. Total area (and total of catch data) coverage remain the same.

*** The Western Aleutians (formerly Adak) brown king crab fishery begins in August, and typically continues into July the following year. Data not yet available.

Mr. GILCHREST. Thank you very much, Mr. Blue.

Mr. Grader.

STATEMENT OF W.F. "ZEKE" GRADER, JR., EXECUTIVE DIRECTOR, PACIFIC COAST FEDERATION OF FISHERMEN'S ASSOCIATIONS

Mr. GRADER. Yes, thank you, Mr. Chairman and members. I appreciate this opportunity to discuss with you here today the issue of reducing fleet capacity. You have a copy of my paper so I will just summarize that briefly and add a couple of other things that have come up since that was submitted to your staff.

Probably the biggest problem we are faced with on the West Coast today, the two biggest fishery crises are those in salmon and in groundfish. Now in the case of salmon, the problem is we need a buyback but it is not fleet; it is buying back excess irrigated agricultural capacity in both the Klamath Basin and the San Joaquin Valley where there is too much agriculture sucking too much water out of the streams. But that is not what we are here today to discuss, that is however our problem with salmon.

But for groundfish, certainly—

Mr. GILCHREST. Buyback excess—

Mr. GRADER. Excess irrigated agricultural capacity.

Mr. GILCHREST. That is interesting.

Mr. GRADER. In those two basins, particularly when what happened is the Federal Government promised water that it could not deliver and yet still needed to protect fish in stream. That is what we are up against right now with salmon, particularly in the Klamath Basin. As you may or may not have been reading in the last couple of weeks where all the irrigated agricultural water got shut off to try to protect some remnant runs of salmon in that basin.

That is one problem but as far as fleet capacity goes, on groundfish we have a serious problem on the West Coast. The Pacific Council has estimated that there is probably about 50 percent excess fish harvesting capacity in that fleet and that affects not just the groundfish fleet but it affects every other fleet on the West Coast because of spillover.

And I must say here that probably most of the members of the organizations I represent would not directly benefit; that is, would not likely be participants in any sort of vessel buyback program. They are in the other fisheries outside of groundfish. But they are greatly affected here because if we do not do something to resolve the groundfish problem those groundfish vessels will be going into other fisheries—into Dungeness crab and albacore and some of these others and creating problem there. So we really have a need to deal with this excess groundfish capacity issue.

Most of the groundfish fleet was built up, during the time of Americanization, with help from either the CCF or the fishing vessel obligation guarantee programs. And we built it up at the urging of the U.S. government to take the place of the foreign fleets. Basically we had the option of either having the foreign fleets there fishing our stocks or put in our own fleet.

Well, we decided to put in our own fleet, which was well and good, but nobody ever bothered to do the research to determine how much actual harvesting or how much resource there was there

to support what size of fleet. That was never done and so as a result, we ended up with excess capacity, which is our problem now.

And that has to be dealt with. I think you have the testimony that was submitted by the Fishermen's Marketing Association on behalf of the trawl fleet involved in the groundfish fishery. Their plan has a lot of merit. But, I am not here to endorse it. There are still many details that need to be worked out. They are estimating around $15 million would probably get at about half of that fleet as well as deal with the issue of latent capacity.

Additional, Senator Wyden I know has had some draft legislation addressing this issue. I think that legislation has a great deal of merit, as well, and I think it has many of the elements that would be necessary for groundfish fleet reduction.

As far as what needs to be in any sort of fleet reduction program, I think we need to look at not just making sure that there is a limited entry program in place initially so that we do not take some boats out of the fishery only to them replaced by others. First and foremost, we have to get rid of the permits, both in the groundfish fishery, as well as any other permits the vessel may hold so that we do not have the potential for spillover.

Secondly, you have to get rid of the vessels because if those vessels remain in fishing they are just going to go into another fishery and create problems there.

And third, we have to get rid of the people. By that I mean that once a person is bought out, they must not be allowed to re-enter the fishery; that is, use the money that they get from any buyout and use those funds to capitalize entry into another fishery. I think at the very minimum there should be a 10-year requirement that they not re-enter the fishery, at least as a vessel owner.

Additionally, I think some of the ideas that have come up, the Capital Construction Fund for example, could help reduce fleet capacity. I do not think we need to get rid of CCF. I just think we just need to redirect it. And with that, I will conclude. Thank you, Mr. Chairman.

[The prepared statement of Mr. Grader follows:]

Statement of W.F. "Zeke" Grader, Jr., Executive Director, Pacific Coast Federation of Fishermen's Associations

Good morning, Mr. Chairman and members of the Subcommittee. My name is Zeke Grader. I am the Executive Director and Legal Counsel to the Pacific Coast Federation of Fishermen's Associations (PCFFA). The PCFFA is made up of 22 different associations representing working men and women in the West Coast commercial fishing fleet. I wish to thank the Subcommittee for the opportunity to provide comments today on fleet capacity reduction programs, Federal investment in fisheries and some thoughts on the reauthorization of the Magnuson–Stevens Act.

My comments here today will focus principally on the issue of fishing fleet reduction programs, but I also want to touch on Federal investment in fisheries. At the outset, let me also explain the experience and interest of PCFFA in these issues. PCFFA was formed approximately a month prior to the signing by President Ford of the Fishery Conservation & Management Act on 13 April 1976. A number of PCFFA's founding organizations had been involved in pushing for passage of legislation to extend U.S. fisheries jurisdiction to 200 miles in an effort to control or eliminate foreign fishing fleets operating in U.S. coastal waters. These fishing organizations representing either trollers and crabbers, or trawlers worked with former California Representative Don Clausen (who introduced the first bill to extend U.S. fisheries jurisdiction to 200 miles in 1969) and with another California Congressman, Robert Leggett, (who chaired the Fisheries Subcommittee when H.R. 200 was working its way through the Congress in 1975 and 1976) supporting passage of the legis-

lation we now know as the Magnuson–Stevens Act. PCFFA, itself, has been active in the various reauthorizations of the Magnuson Act, pushing for, among other things, the inclusion of habitat language in the 1986 reauthorization and the 1976 passage of the Sustainable Fisheries Act.

FISHING FLEET CAPACITY REDUCTION PROGRAMS

While it may be hard to believe now, 25 years later, there was considerable opposition to the extension of U.S. fisheries jurisdiction to 200 miles, even though President Truman had some two decades before declared the resources of the shelf (i.e., oil and gas, minerals) to belong to the U.S. There was opposition from defense and maritime shipping interests; there was opposition from the U.S. tuna fleet that operated off the shores of Central and South American nations and Africa. And there was opposition from foreign relations interests who believed the fishery resources of the oceans, beyond nations' 3 or 12 mile limits, should be dealt with by an international agreement or through a United Nations' Law of the Sea treaty, and not by unilateral declarations. As part of a compromise to ameliorate some of the opposition to a 200-mile limit, H.R. 200 provided for the continuation of foreign fishing off U.S. shores, through Governing International Fishing Agreements (GIFAs). Foreign fishing was only to be eliminated as the U.S. built up its harvesting and processing capabilities to utilize the fish in the newly-established Fishery Conservation Zone (later renamed the Exclusive Economic Zone or EEZ). The problem was we had no idea of what the fish stock sizes were or how much harvesting they could sustain.

The inherent flaw with the Federal law then, which now seems clear although few saw a quarter century ago in those heady days when the new law was being trumpeted as the "renaissance of the fisheries," was that we had to build up our U.S. fleet, and our processing capabilities and demand, to get rid of the foreigners, but we had no idea what level we could to build to for sustainable fisheries.

The second flaw was that the U.S. had no experience in conserving or managing fisheries. Management previously had been done by the states. The National Marine Fisheries Service was a brand new agency cobbled together from the old Bureau of Commercial Fisheries and the marine elements of the nation's sportfishing programs. The Bureau of Commercial Fisheries had experience in administering a fishing vessel loan program and a loan guarantee program, as well as the Capital Construction Fund. It did have some research elements as well - laboratories and research vessels, but not the capability to conduct the research and stock assessments necessary to determine what level of harvest the fish stocks being brought under the new Federal fishery management plans (FMPs) could sustain. But, there we were with a new agency and no experience in fishery regulation, charging them with appointing eight regional fishery councils and managing the vast fishery resources off the U.S. coast.

In hindsight, what should have happened was an immediate phase-out foreign fishing and the imposition of a moratorium on any new U.S. harvesting capacity in the fishery within the EEZ until some thorough stock assessments had been conducted and some understanding gained on what level of fishing those stocks could sustain. Then there could have been a reopening of the fishery to new U.S. effort as well as the foreign fleets that had previously fished in the new U.S. waters, with a plan in place for a transition from a mix of U.S. and foreign fleets to an exclusively U.S. fishing fleet presence - all of it based on what level of harvest each species or species complex could sustain. That, unfortunately, did not happen and I doubt that, given the politics of the time and the nature of the opposition to extended jurisdiction, it would have been possible.

Exacerbating this situation was the fact the money for the necessary research and stock assessments was not forthcoming, but there was plenty of encouragement for fishermen, as well as other investors, through the fishing vessel loan guarantee and CCF programs and various provisions in the U.S. Tax Code, to build new and larger vessels - mostly trawlers. Other U.S. programs, such as Saltonstall–Kennedy Act (S–K) funds were used to help develop and promote "underutilized" stocks to assure there would be markets for the fish caught by the expanded U.S. fleet. In the meantime, some of the new U.S. boats sold their catches at sea to foreign processing ships under joint venture arrangements. That was the "Americanization" of the EEZ.

What happened as we all know, is this nation went on a boat building binge, not just adding more vessels to the fleet, but substantially increasing the catch capacity of the new vessels entering the fishery. And, the old vessels were not removed to make room for the new boats, they kept fishing too. All of this was happening so we could eliminate the foreign fleets, but we didn't have a notion about how much fish was there or could be taken. The irony is that all many U.S. fishermen wanted was to be rid of the foreign fleets who they felt were overfishing the stocks. Building

up a U.S. fleet to take the place of the foreigners was not what many fishermen who wanted the 200-mile limit had sought.

Given this history, it is clear the law and policy of the U.S. is at the root of the problem we are now faced with of excess fish harvesting capacity. There is little doubt in my mind that there is Federal responsibility for the situation we find now in many of our fisheries where there is too much harvesting capacity for the fish available. This excess capacity is putting fish stocks at risk as well as fishing men and women and our fishing communities. And, where there is overcapacity in one fishery it can quickly lead to overcapacity in others as fishermen in overcapitalized fisheries seek out opportunities in other fisheries.

On the West Coast, even before the passage of H.R. 200 in 1976, there were efforts afoot to limit the number of vessels in fisheries to bring the fish harvesting capacity in line with what the resource could support for an economically viable fishery. Alaskan salmon and California abalone were examples of such early efforts. Indeed, most West Coast fisheries are presently under some form of limited entry to restrict access into various fisheries. The problem was that many of the limited access programs came in to place too late when the fleet harvest capacity already exceeded the capacity of the resource to sustain an economically viable fishery.

The West Coast groundfish fishery, in particular, was being encouraged by Federal policy - "Americanization" - to expand in the late 1970's and early 1980's, and it did. This expansion happened, however, without first having a good understanding of the stocks or their size, because while there was money for vessels, there were inadequate funds for the necessary research. By the time the Pacific Fishery Management Council finally established a limited access program for the groundfish fishery it was too late. And it is the Pacific coast groundfish fishery that in dire need of a significant reduction in the harvest capacity of its fleet.

In its October 2000 "Transition to Sustainability," the Pacific Council's Groundfish Fishery Strategic Plan, states:

> The groundfish resource cannot support the number of vessels now catching and landing groundfish. There are now over 2,000 licensed West Coast commercial fishers [sic], and many thousands of sport fishers. To bring harvest capacity in line with resource productivity, the number of vessels in most fishery sectors will have to be reduced by at least 50%. Coastal ports have significant shoreside infrastructures to support this once-prosperous industry, such as processing plants, boat yards, machine shops, marine supply stores, motels and restaurants. Fishing fleet overcapitalization has been a major factor in fish stock depletion, and the industry and coastal communities are facing an economic and social crisis.

Resolving the overcapitalization, the excess harvest capacity, in the Pacific coast groundfish fleet is crucial for the health of West Coast fisheries. First, groundfish has been the largest fishery on the West Coast in terms of total landings and, in most years, value. Not only is it a large employer, it helps to sustain the shoreside infrastructure utilized by other fisheries. Second, as long as excess capacity remains, it will be politically difficult to impose the types of catch limits needed for stock rebuilding because of their harsh economic implications. And, third, and probably of most concern to my members, since they are either not in the groundfish fishery or would not be targeted for any buyout, is the potential for groundfish vessels to put pressure on other fisheries - spreading the problem from that fishery to other fisheries; for example, increasing pressure in fisheries where groundfish vessels may have permits -- such as Dungeness crab, or entering fisheries that are still open access -- such as albacore.

Some have suggested that we simply let economics take care of the problem, or even to impose an individual transferrable quota (ITQ) system as a solution. It is supposedly a free market system, after all. The problem is economic theory and reality don't always match up and ITQ systems don't deal with excess vessels:

First, if we leave it to economics there will be continuing pressure from those in the fishery to make quotas as large as possible, so they can survive, thereby lengthening delaying, or even undermining, stock rebuilding.

Second, as I mentioned, many of the boats will go into other fisheries or put more pressure on other fisheries - probably resulting in overcapacity in those fisheries as well.

Third, bankruptcies will not take vessels out of the fishery, but simply allow the new entrants to get into the fishery at a lower cost - they, too, will be adding pressure on stocks and clamoring for liberal seasons trying to make ends meet.

Fourth, there is precedent for the Federal Government lending assistance. Government regularly aids private enterprise - from airlines, to agriculture, to foreign trade missions, to logging roads in national forests, to oil and mineral extraction, to locks and channel construction and maintenance for tug-and- barge operations,

to cheap, subsidized water and power in the west. Indeed, the government has funded buy-backs from New England groundfish to North Pacific factory trawl operations. While the buy-backs in these and other cases have not been without their problems, and in New England of questionable impact, there is ample justification for a multi-million dollar groundfish vessel buyout now on the Pacific, particularly if such a program is designed not to repeat some of the problems that plagued buy-backs elsewhere.

Fifth, as I discussed earlier, there is clear Federal responsibility here. The Federal Government encouraged the fleet expansion, indeed, made it the condition for the removal of the foreign fleets.

Estimates of the cost needed to achieve an effective buy-back range from about $50 million upwards. The $50 million figure is the estimate developed by the Fishermen's Marketing Association, which represent trawlers to reduce fleet capacity by about half - the Pacific Council's goal. In fact, the trawl fishery should be the major target for any fleet reduction program in the Pacific coast groundfish fishery, since it was the fleet whose capacity was greatly expanded under the Americanization program and it accounts for the lion's share of the groundfish catch.

Let me just add here that the problems is not really that of "too many boats, chasing too few fish," as a lot of fishery professors and a few environmental groups are found of saying, but of too much fishing capacity for the amount of resource available. Any type of fleet reduction program, whether funded by the Federal Government, by industry, or jointly, must target on reducing harvest capacity, not simply number of vessels. Not all vessels are equal. It makes more sense to me eliminating (through a buy-out) a single vessel capable of harvesting 50 tons a day than five or ten capable of catching five tons per day - provided all are economically viable units.

In addition to the Fishermen's Marketing Association's draft plan for a Pacific coast groundfish capacity reduction program, I understand Senator Wyden is also proposing legislation for Federal aid to assist a fleet reduction program for this fishery. I am not going to comment on either, because they are still in draft form, but rather I want to emphasize here today that a capacity reduction program is desperately needed in the Pacific coast groundfish fishery and there is a Federal responsibility to assist with such a program. Three elements, however, are critical to make any such program work. They are:

1. All permits held by a vessel must be retired. Merely retiring one permit from a vessel simply allows that vessel to fish harder in another fishery causing problems in that fishery.

2. The vessel must be permanently retired from fishing. Merely removing a permit or permits from a fishing vessel and still allowing it to fish will result in the vessel either purchasing permits from a less active vessel or entering fisheries for which no permits are required - again, exacerbating problems in other fisheries. We may wish to consider whether any vessel removed from the fishery should be prohibited from entering the fishery of another nation, but certainly we should not allow vessels to move freely into another nation's waters unless it is part of a program for sustainable fisheries in that nation.

3. The individual owner who participates in a vessel buyback program should be prohibited from reentering the fishery for a minimum of ten years, if not longer. Nothing is going to be achieved by buying out a high-line fisherman in a fleet reduction program, only to have them come back with the cash from a buy-out and use it to buy back into the fishery. Restrictions on re-entry into a fishery in vessel buyback programs have been used in other fisheries, such as the salmon and gillnet fisheries in the State of Washington.

Finally, let me talk briefly about the Capital Construction Fund (CCF) that has been blamed, in part, for the overcapitalization in many fisheries and proposed, as a result, for elimination. While CCF certainly has contributed in the past to new vessel construction and major reconstruction (increasing the catching capacity of a fishing vessel), the program can have some positive benefits to the fisheries in the future in at least two ways:

First, there is a need for a fund that fishermen can use to set aside earnings for future investment in their vessels to not increase their catching capacity, but to: 1) make them safer; 2) make them more fuel efficient; and 3) allow them to better hold the catch to increase product safety and quality.

Second, there is a need to modify the program allowing it to modulate vessel construction, including a mechanism to allow CCF holders to take a one-time withdrawal of funds, at a marginal tax rate or as a retirement account, without necessitating a penalty for nonconstructive use. Thus, the CCF program could assist in helping reduce fleet capacity.

FEDERAL INVESTMENT IN FISHERIES

Next, let me turn briefly to Federal investments in fisheries and the crucial need for some ongoing programs and increases in expenditures.

SALMON RESTORATION. The monies being invested in salmon resources for California and the Pacific Northwest are necessary, along with strong enforcement of the Clean Water Act and the Endangered Species Act, if we are to get many of these stocks not only delisted, but back to full productivity. The critical elements in any grant programs to the region for salmon restoration to assure they are effective and not squandered are these:

1. The monies should only be expended pursuant to a restoration plan. Considerable funds have been squandered for various projects that were not part of any overall restoration plan and, therefore, had little impact.

2. The monies should only be used where there is some permanence to the project. It does little good to put a restoration project in one part of a watershed only to have it destroyed as a result of activities occurring upstream or upslope in that watershed. Project proponents, whether private groups or state agencies, must be made to demonstrate that their project will not be destroyed by other activities in a watershed.

3. The monies should not be used to mitigate damages caused by a landowner or other entity that the landowner or entity has a current obligation to correct. Federal dollars should not be used, or precious salmon restoration monies squandered, to pay to fix the damage someone else is legally obligated to correct.

ANNUAL STOCK ASSESSMENTS. The status of more than three quarters of all species managed under the Magnuson–Stevens Fishery Conservation & Management Act is unknown largely due to a lack of funding for basic research and stock assessments. We need better information on all stocks to fulfill their responsibilities to rebuild overfished stocks, prevent overfishing of stocks approaching an overfished condition, and to set appropriate catch levels for those fish that are not overfished. Currently, National Marine Fisheries Service, with the President's requested increase of $13.3 million for stock assessments, would still have a deficit of 1,700 research days at sea to fulfill their stock assessment duties. Increasing the stock assessment expenditure by $26.6 million from 2001 levels would cut that number in half so that the deficit could be erased in 2003 or 2004.

OBSERVER PROGRAMS. Increasing the annual appropriations for fisheries observers by the National Marine Fisheries Service would enable the agency to establish and implement an effective National Observer Program. Such a program is essential to overall fisheries research, the dearth of which is caused so many of the problems now facing our fisheries today. An increase this year, for example, from $16.4 million to $25 million in observer programs would provide an extra $5 million over fiscal year 2001 funding levels for West Coast observers. The information from these observers, together with the information that is expected to be generated through the National Fisheries Information System, would give us a better idea on exactly how much fish is caught directly and as bycatch, thereby improving management of our fish populations.

ESSENTIAL FISH HABITAT (EFH). Essential fish habitats (EFH) are those waters and substrate on which fish depend. These habitats are currently being damaged from both land-based activities and some destructive fishing practices. While the Sustainable Fisheries Act of 1996 gave NMFS a clear mandate to identify and conserve essential fish habitat too little has been done to protect these habitats. An increase in funding would allow NMFS to gain the information necessary to further refine designations of EFH and take action to conserve EFH, including measures to minimize the adverse impacts of fishing gear and other human activities on EFH.

ENFORCEMENT AND SURVEILLANCE. Enforcement of our fishery management laws has been woefully underfunded for years. According to NMFS, there are currently around 150 enforcement agents that are each responsible for 1200 miles of coastline. This year alone, an increase in funding for enforcement by $7 million over the President's request, would allow for the hiring of 30 more officers to begin to address this chronic shortfall. The increase would also allow for a strengthening of alternative enforcement programs and enhancement of state and local partnerships.

Increasing funding for the Vessel Monitoring System (VMS) would allow for the establishment and implementation of VMS systems and the placing of VMS transponders on a vast majority of the estimated 10,000 boats in the U.S. commercial fishing fleet. VMS programs enhance data collection and safety at sea, and can be beneficial to fishermen by allowing them to fish right up until a quota is reached rather than leave the fishing site before the season closes. These systems could also be used to increase fleet safety through the tracking of vessels.

Reauthorization of the Magnuson–Stevens Fishery Conservation & Management Act

My organization is one of the commercial fishing organizations belonging to the Marine Fish Conservation Network (MFCN). The Network is currently working on developing a set of recommendations for the reauthorization of our nation's fisheries act that, we believe, will reflect the concerns of conservation organizations, as well as the concerns of commercial and recreational fishing organizations committed to sustainable fisheries. There are a number of concerns the Network has currently with the implementation of the MSFCMA and the 1996 Sustainable Fisheries Act amendments that will be addressed when the Network makes its recommendations, probably within the next month.

CONCLUSION

Mr. Chairman and members thank you again for this opportunity to testify. As you will have noted, the resolution of the Pacific coast groundfish crisis is of the most concern to those of us on the West Coast. We believe that the fleet harvesting capacity in that fishery must be substantially reduced, not just for the protection of groundfish stocks and the continued economic viability of a fishing fleet in that fishery, but to protect our other fisheries and fleets as well. There is a clear Federal obligation to provide assistance and we ask that this Subcommittee, the full Resources Committee and the Congress provide the assistance necessary so we can rebuild the stocks and restore vitality to our fishing communities. I will be happy to respond to any questions the Subcommittee may have. Thank you.

Mr. GILCHREST. Thank you very much, Mr. Grader.

Mr. Kirkley.

STATEMENT OF JIM KIRKLEY, CHAIRMAN, COASTAL AND OCEAN POLICY DEPARTMENT, VIRGINIA INSTITUTE OF MARINE SCIENCES

Mr. KIRKLEY. Thank you very much for allowing me to be here today. It is an honor and a privilege to be here to discuss issues on capacity and capacity reduction programs.

For the moment let us just ignore how we ended up in our condition. We know currently what is going on in the United States is that we have a lot of fisheries that have serious problems of excess capacity. We have overfishing. The National Marine Fisheries Service in a recent report identified 40 fisheries in the United States as having excess capacity. That means that they have the capability to harvest well in excess of levels at which the resource can be sustained at. These 40 fisheries tend to be the higher value fisheries, as you might expect—Gulf shrimp fisheries, Northwest Atlantic sea scallop fisheries.

What happens when you have excess capacity? The first thing you have usually is a crisis reaction on the part of management in regulation. You impose a series of command and control-type regulations and then you discover you have to tweak the system to get a little farther and you tweak the system some more and you have a layering of management and regulatory strategies. And what does this do? This of course causes community disruption, serious economic impacts and consequences and problems, additional problems in the future for management and the resource.

Now about five years ago the National Marine Fisheries Service formally recognized they had to do something about excess capacity and to this day I give them credit because they took very, very bold steps to go forward and sponsor or cosponsor workshops to define and measure capacity and to try to develop or look at initiatives for reducing capacity in fisheries.

We know capacity has to be reduced. What are some options? Right now we are discussing buybacks. That is one option. A second option and that which has been used most often is not really a capacity reduction program; it is a capacity utilization program. That is the typical command and control-type regulation. You impose a limit on days at sea a vessel can fish. You impose a limit on crew size. You increase the mesh size of the gear. You do anything and everything possible to prevent vessels from operating efficiently but at the same time that does reduce their capacity utilization.

The third option are what I prefer to call private property rights regimes. There is a misnomer among people when they say property rights regimes. All types of fisheries management structures are property rights, even the case of open access and the property right in there is no property right. By default they all have it but the private property rights which are being highly touted now are, for example, individual transferrable quota programs, individual transferrable effort programs, territorial use rights to fish programs, TURFs. In the United States we have only used ITQs.

Now on the buyback program, which is what I want to focus the right of my energy on here, the tricky question on buybacks, one major question is who pays? And I have heard a lot of discussion today. There is no reason why you cannot have a mix. You could have public dollars. You could have private industry. You could have NGOs, environmental groups, recreational groups, any mix thereof that goes forward in mutual agreement among the parties.

If we look at the three buybacks we are familiar with that have occurred since 1995, basically $130 million has been spent on buybacks for the New England groundfish fishery, the Pacific Northwest Bering Sea groundfish fishery, and the Washington State salmon fishery. The first two, the groundfish fisheries, they reduced vessels directly and the third one pulled permits from the fishery.

One thing that troubles me about all three of these programs is that it does not seem like enough homework was done ahead of time to predict consequences of allowing entry, latent effort. To me, it makes no sense that you would ever have a buyback program and allow entry back in. Something seems wrong about that. It just does not go well.

Of those three fisheries, the only one that we have really good quantitative information on is for the New England groundfish fishery. Estimates were actually done to determine how much capacity was removed from that fishery.

What I would like to stress on the ideal buybacks is somebody has to spend a lot of time paying a lot of attention to structuring these programs. To design a buyback program it is not going to be a one-size-fits-all. It is going to be highly variable, fishery by fishery, region by region, and given different goals and objectives, these will have to be considered.

What works best? We have three options here on the table in terms of buybacks, ITQs and command and control regulations. My premise is that what works best is the wrong question to be asking right now. The reason why it is the wrong question is because there is a lot of other considerations that now have to be consid-

ered, in addition to just removing excess capacity. You have regulations relating to community impacts. You have multiple species issue. You have issues dealing with essential fish habitat. You have the Sustainable Fisheries Act, which is asking you to rebuild resources within a 10-year period. You have international agreements and international plans of action. So you cannot just say let us do this, let us do buybacks or ITQs.

In addition to that, people should not be looking at these options as sole source or either/or type programs to reduce capacity. There has to be a mix.

Now we are going to move on here to what I call the missing piece of the puzzle. That is I hope something the gentleman next to me will discuss in more detail and that is recreational capacity. Right now I honestly do not know how to define recreational capacity and I do not know to measure it. And if I had a measure of it, I do not know what I would do with it.

There are concerns being raised, though, that if the commercial sector has to reduce capacity, why should not the rec sector? And those are fair, legitimate concerns and issues that probably will need to be addressed, particularly for those fisheries where the two user groups compete against one another.

How much capacity should be reduced? How do we determine the level of reduction in capacity? This is an extremely tricky question and one which you cannot get a real answer to. Why? The Magnuson-Stevens Fisheries Conservation Management Act has as its primary objective the promotion of maximum benefits from food production and recreational opportunities.

To an economist, which is what I do and one concerned about theory, that implies economic efficiency. We do not have a good track record in managing America's fisheries of promoting economic efficiency.

We have other laws that deal with consideration of community impacts. We have the National Marine Fisheries Service's strategic plan that says we are going to have a 20 percent reduction of capacity by the year 2005.

The bottom line is that you do not have a hard set of guidelines to determine the level of capacity to reduce. Right now about the only thing you can work with is you start on maximum sustainable yield, which can be a flawed premise for some fisheries, and you look at your existing capability to produce relative to that maximum sustainable yield level and that gives you a starting point.

Someone is going to have to figure out how to balance different goals, different objectives, the Magnuson Act, the Sustainable Fisheries Act component of rebuilding the resource against community impacts. Thank you very much.

[The prepared statement of Mr. Kirkley follows:]

Capacity Reduction Programs and Sustainable Fisheries

Introduction

Reducing excess harvesting capacity poses major problems for fisheries management in the United States, as well as throughout the world. In a report by the National Marine Fisheries Service (NMFS) "Identifying Harvest Capacity and Over-capacity in Federally Managed Fisheries," 40 fisheries were identified as having excess harvesting capacity. Alternatively, over-capacity characterized 55 percent of the U.S. Exclusive Economic Zone (EEZ) fisheries.

Many of the fisheries identified as having excess capacity are the highest valued fisheries of the United States (Table 1). For example, the northeast groundfish and Atlantic sea scallop fisheries were identified as having excess capacity. The sea scallop fishery accounted for nearly four percent of the total U.S. landed value of all species in 1999. Landings of cod, haddock, and mixed flounders in the Northeast groundfish fishery accounted for 4.2 percent of the total U.S. landed value in 1999. In 1999, landings and value of all species equaled, respectively, 9.4 billion pounds and $3.5 billion.

Excess capacity eventually leads to management and regulation, which subsequently cause social and economic problems. For example, the closing of various areas of Georges Bank to restore groundfish stocks had devastating effects of several New England coastal communities. New Bedford is still experiencing economic problems. In the case of Atlantic sea scallops, vessels which once fished 200 or more days a year with crew sizes of nine to 13 individuals are now restricted to 120 days a year and crew sizes less than or equal to seven individuals. Increased layering of regulations has decreased the technical and economic efficiency of fishing fleets and reduced net benefits to society.

Realizing the potential problems associated with excess harvesting capacity, the National Marine Fisheries Service initiated an effort to define and assess capacity in fisheries. In early 1996, the agency began work on developing definitions and methods for measuring capacity. The agency sponsored or co-sponsored numerous meetings and workshops to develop a better understanding of the concept of capacity. In 1998, NMFS hosted an international FAO-organized technical working group meeting in La Jolla, California; a major result of this meeting was the development of definitions of capacity. A second NMFS co-sponsored, FAO organized meeting examined and reviewed various options for estimating and assessing capacity in fisheries. In very simple terms, capacity output was defined as the maximum amount of fish which could be produced given no restrictions on the availability of the variable factors of production (e.g., days at sea and crew size) and operating under normal operating conditions. Numerous alternative definitions, which more rigorously incorporated economic and social concerns were also offered.

Table 1. Fisheries with Excess Capacity

Region	Fishery
Northeast	Tilefish
	Spiny dogfish
	Northeast groundfish
	Large-mesh trawl fisheries
	Small-mesh mixed trawl
	Atlantic sea scallop
Southeast	Caribbean queen conch
	South Atlantic snapper-grouper
	Gulf group king mackerel
	Gulf stone crab
	South Atlantic rock shrimp
	Gulf Shrimp
	Gulf shallow-water groupers
	Gulf red snapper
Alaska	Gulf of Alaska groundfish
	Bering Sea/Aleutian Islands crab
	Bering Sea/Aleutian Is. Groundfish
	IFQ halibut and sablefish
	Alaska scallop
Northwest	Limited entry fixed gear sablefish
	Limited entry fixed gear groundfish
	Limited entry trawl non-whiting groundfish
	Open-access groundfish
Western Pacific	North West Hawaiian Islands bottomfish
	North West Hawaiian Islands lobster
	Hawaii pelagic charter
	American Samoa bottomfish
	Guam bottomfish
Atlantic: HMS species	Large coastal sharks
	Pelagic sharks
	Small coastal sharks
	Deepwater sharks
	Swordfish
	Bluefin tuna
	Bigeye tuna
	Albacore tuna
	White marlin
	Blue marlin
	Sailfish
	Yellowfin tuna

Source: National Marine Fisheries Service (2001), "Identifying Harvest Capacity and Over-Capacity in Federally Managed Fisheries."

Buyback Programs

Buyback programs are typically initiated in response to a crisis. In the case of the United States fisheries, the crisis was partly motivated by the Sustainable Fisheries Act (SFA) of 1996. The SFA requires over-fished resources to be restored, in general, within a 10 year period. In order to restore resource levels, however, it became necessary to impose extremely restrictive regulations on various fisheries. For example, the New England Fishery Management Council (NEFMC) imposed limits on the annual number of days a vessel could be at sea, crew size to less than or equal to seven, gear restrictions, and area restrictions for the scallop fishery. In addition, vessels were required to install vessel tracking systems (VTS or VMS).

Presently, the National Marine Fisheries Service has the authority to conduct a fishing capacity reduction program. Under the authority of section 312(b) of the Magnuson-Stevens Fishery Conservation and Management Act, the Secretary of Commerce may buy back vessels and/or fishing permits in order to obtain the maximum sustained reduction in fishing capacity at the least cost and in a minimum period of time. Buyback programs may be funded directly by the U.S. government, industry funds, or from public, private, or non-profit sources. In principle, there are generally three goals of buyback programs (Holland et al. 1999): (1) conservation of fish stocks; (2) improvement of technical and economic efficiency through fleet rationalization; and (3) enabling transfer payments to the fishing industry.

Since 1995, approximately $130 million has been expended on buyback programs in the United States. Buyback programs have been used to reduce capacity in three major U.S. fisheries: (1) The Northeast groundfish fishery, (2) the Bering Sea groundfish fishery, and (3) the Washington State salmon fishery. To date, the success of these three buyout programs to effectively reduce harvesting capacity is unknown. The reason it is unknown is because no formal assessment of capacity was done prior to implementation of the buyout program. That is, the level of excess capacity removed from the three fisheries was not fully determined.

Good, Bad, and Ugly of Buyback Programs

The use of buyback programs to eliminate excess capacity has been criticized on many grounds. The most common criticism is that after the buyback, new vessels enter the fishery or existing vessels engage in capital stuffing or adoption of new technology, and thus, excess capacity is still a problem. The flip side of this criticism is "Why would an agency sponsor a buyback program and allow entry into the fishery?" The purpose of the buyback program is to reduce capacity to levels, which are economically sustainable and promote economic efficiency. Presently, many of the fisheries having excess capacity either have a limited entry program in place, or may be subject to a limited entry or controlled access program in the future.

Critics of buyback programs often compare private-property right regimes to buyback programs. They argue that programs like individual transferable quotas (ITQs) directly solve the excess capacity problem and avoid the possibility of capital stuffing or adoption of new technology. The problem with these arguments is that they attempt to promote the efficacy of single management regimes—buyback vs. ITQ. It is highly unlikely that either buyback programs of ITQ-type programs provide an adequate basis for eliminating excess capacity. That is, other regulations are likely necessary for either program. For example, limits may have to be imposed on the number of vessels allowed to fish and the type and size of gear, etc. Other restrictions may be necessary to reduce bycatch or habitat damage.

ITQ programs may also present problems when dealing with multiple product or multi-species fisheries. Most fisheries of the U.S. involve, at least, multiple products (e.g., whale cod, cod scrod, and market cod), and many fisheries involve multiple species (e.g., the New England groundfish fishery lands cod, haddock, yellowtail, winter flounder, pollock, plaice, and several other species). ITQs for one species may cause considerable economic waste for ITQ species as harvesters redirect fishing towards other species regularly caught along with the ITQ-regulated species.

Many of the potential problems identified for buyback programs also pertain to numerous management measures. Even under the highly touted individual transferable quota (ITQ) program, there are incentives for vessel owners to adopt new technology (i.e., embodied technical change). When resource levels are high and there are potential profits, vessel owners would be expected to adopt new technology, which reduced their operating costs.

There is one very distinct difference between ITQ management and buyback programs. The ITQ, while allowing transfer of harvest/retention rights, may require a longer period of time to restructure a fleet than would a buyback program. Moreover, an ITQ program may have market problems because the ITQ markets may not be well defined for those fisheries taking place out of several states. For example, Squires et al. (1995) demonstrated that in some cases, an equilibrium market price for quota may not occur because of the absence of well-established markets for quota. With ITQ programs, there may be a tendency for some vessel owners to stay longer in the fishery either in an attempt to remain economically viable or to drive up the ITQ price. The buyback program should permit a more rapid exit from the fishery.

Another major concern of buyback programs is the funding. That is, who pays for the program. On the one hand, industry generally supports the use of public funds to support the buyout. Other individuals or user groups prefer that the industry fund the buyout through various loan programs. For example, the individuals desiring the buyout obtain a reduced interest rate loan from treasury and repay over a prescribed length of time through ex-vessel sale or revenue deduction of some fixed percent or amount. There are numerous issues related to the "who pays" question. Various government programs since 1951 have promoted or encouraged entry into fisheries (Investment Task Force 1999). It thus might be argued that the public sector is, at least, partly responsible for reducing excess capacity. Also, reducing excess capacity should benefit society in terms of economic efficiency and reduced production costs. At the same time, individuals entered into a fishery knowing the risks, and thus, the individuals should fund buyback programs.

Summary

Many of the most economically important fisheries of the United States have excess capacity. Unless excess capacity is reduced, management will have to increasingly impose more restrictive regulations on fishing activities. The combination of more restrictive regulations and the need for frequent regulatory changes (i.e., amendments) pose substantial hardship for vessel owners and crew and communities dependent upon commercial fishing activities. Moreover, the frequent implementation of new amendments is often costly in terms of public dollars necessary to develop and implement the regulations. A buyback program offers a convenient platform from which more long-term management strategies may be formulated.

Buyback programs offer one possible option, among many, to reduce excess capacity in fisheries. If effective, however, buyback programs also pose challenges for communities and individuals affected by buyback programs. The same concern, however, also applies to most other management and regulatory schemes. Communities and individuals will initially be confronted with loss of employment opportunities. For some individuals, there are few employment alternatives (e.g., what kind of employment could a 45 year old crew-member earning $45-$60,000 a year obtain). Regardless of the use of buyback programs to reduce excess capacity, the National Marine Fisheries Service will need to continue to assess capacity relative to desired rates of removals and resource conditions. The agency took bold steps to early address the problem of excess capacity, and has made admirable progress towards addressing the problem of excess capacity in fisheries.

A remaining issue which has not been adequately resolved is how much capacity should be removed from a fleet, either through buyback programs or other management/regulatory strategies. The Magnuson-Stevens Fishery Conservation and Management Act has a clearly specified objective of promoting maximum benefits to society from food production and recreational opportunities. That objective suggests economic efficiency. At the same time, there are numerous of laws and regulations which require consideration of other factors (e.g., community impacts). There also is the Build Sustainable Fisheries (BSF) element of the NOAA Fisheries Strategic plan, which has a goal of reducing by 20 percent the number of overcapitalized fisheries by the year 2005. The design of any buyback program or management/regulatory strategy to reduce excess capacity will have to reflect balance of objectives. It will become necessary to consider trade-offs between maximum societal benefits, as originally defined, community and economic impacts, and desired resource states.

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Mr. GILCHREST. Thank you, Dr. Kirkley. That was a fire hose. We will come back to that and turn down the pressure a little bit so we can absorb more of it. Thank you very much.

Mr. Mike Nussman.

STATEMENT OF MIKE NUSSMAN, VICE PRESIDENT, AMERICAN SPORTFISHING ASSOCIATION

Mr. NUSSMAN. Thank you, Mr. Chairman. I appreciate the opportunity to be here today and testify on behalf of the American Sportfishing Association. For those of you who are not familiar with ASA, we are a trade association representing the sportfishing industry. By that I mean manufacturers, wholesalers, retailers in the sportfishing sector.

Our written testimony addresses the broad issue of overcapacity of fishing fleets under the Magnuson Act and more specifically the Wallop-Breaux program, which was addressed in the task force's report. I do not think it would serve the Subcommittee for me to go back through that material in any great detail so if I may, what I would like to do is narrow my comments and focus on three what I think are fairly important points and I would say that at least with two of them, I agree with my other colleagues.

First, the issue of capacity reduction in Federal subsidies in marine fisheries are indeed very, very important ones and perhaps even the most important issue that we will face as we look to reauthorize the Magnuson Act. Congress, with your leadership, I might add, undertook a number of very tough issues back in the '96 reauthorization but as evidenced by the call for this Federal report, investment report, did not fully address these kinds of issues.

The group that came together to produce the Federal Fisheries Investment Report have performed a substantial service to us all. They have compiled a thorough and comprehensive review of Federal fisheries subsidies and while the members of the task force do not agree on all the recommendations contained in the report, there is a substantial amount of consensus in there and I would urge the Committee to look at that.

So as you go forward to develop legislation for reauthorization of Magnuson-Stevens, I would urge the Committee to use the guidance provided by the task force in those recommendations.

Secondly, Mr. Chairman, I would like to comment briefly on the international situation as it relates to subsidies in fishing capacity. As I mentioned in my written testimony, I have just had the pleasure of completing my second term for a total of 6 years as the U.S. Recreational Commissioner to ICCAT or the International Commission for the Conservation of Atlantic Tunas. And while I do not and cannot claim to be an expert on international fishery management, I will say that if you are concerned by too many fishermen chasing too few fish domestically, just wait until you get a look at what is going on internationally.

Developing countries around the Atlantic—in fact, around the entire globe—are building the capacity to enter that race for the fish that was mentioned earlier. And as we know, all the fish are already spoken for. This issue, this international issue, is one where I fear that we are significantly behind the curve and I think we as

a nation need to focus far, far more attention and more leadership in this area.

Finally, Mr. Chairman, Wallop-Breaux and sport fish restoration are, I believe, fine examples of user pay, user benefit programs. My written testimony provides the history, as well as the current funding levels for these efforts. In my review I can find absolutely no evidence that these programs are a subsidy of any type or that they have caused harm to the nation's marine resources.

The task force concludes in their report that these investments by Wallop-Breaux do not present a serious matter of concern. I would go a bit further. I believe that without Wallop-Breaux, our nation's fisheries, both freshwater and marine, would be in much worse shape than they are today. Representing a number of companies that write significant checks to the IRS each quarter—I might add these checks over the course of a year will come to some $120 million—I can assure you my companies do not view this as a Federal subsidy. In fact, I would argue that America's anglers, through the excise taxes they pay and the license fees they pay, subsidize the proper management of our nation's fisheries.

With that, I will go to the capacity question that was raised here just a second ago and address that very quickly.

I think we have apples and oranges when people talk about capacity of recreation, I do not think such a term exists. I do not think you will ever be able to find it.

The reason we are interested in reducing capacity is because we are fearful that companies may well go out of business, that they are economically not using their resources well. While there are companies that are in the recreational fishing business (and I represent them), the actual anglers out there catching fish are in it as a hobby. It is recreation. If they do not catch the fish, they are not going to go out of business. They are not going to go hungry in most instances. They are just not going to catch as many fish. So if instead of catching five fish they catch two fish, they do not have to be reimbursed. They do not have to be bought out.

So I think we are mixing apples and oranges when we try to say that recreational fisheries are just like commercial fisheries. They are not.

So thank you, Mr. Chairman. With that I would be happy to answer any questions.

[The prepared statement of Mr. Nussman follows:]

Statement of Mike Nussman, Vice President, American Sportfishing Association

Mr. Chairman, I appreciate the opportunity to testify before the subcommittee on behalf of the recreational fishing industry. My testimony today addresses the broad issue of over-capacity of fishing fleets under the Magnuson Fishery Conservation and Management Act, and more specifically, the Wallop–Breaux program. In addition, I'll comment briefly on the international component of the issue, having recently completed two terms as the U.S. Recreational Commissioner to the International Commission for the Conservation of Atlantic Tunas (ICCAT). This testimony is given on behalf of the 400 members of the American Sportfishing Association (ASA).

ASA is a non-profit trade organization whose members include fishing tackle manufacturers, boat builders, retailers, state fish and game agencies, angler organizations, and the outdoor media. For more than fifty years, ASA and its predecessor organizations have promoted the conservation of fisheries resources and supported measures that improve the aquatic environment.

BACKGROUND

With the passage of the Sustainable Fisheries Act (SFA) in 1996,Congress indicated a renewed commitment to managing the marine fisheries of this nation in a sustainable manner. As a part of that commitment, Congress directed the Secretary of Commerce (Secretary) to examine the role of the Federal Government in subsidizing the nation's fishing capacity. The Secretary convened a task force on the matter and in July of 1999, the group released the Federal Fisheries Investment Task Force Report to Congress. Dr. Vishwanie Maharaj, ASA's then Director of Economics participated in the task force on behalf of the recreational fishing industry. The report, while thorough and comprehensive in its treatment of Federal subsidies, does not attempt to evaluate subsidy programs as either good or bad. Instead, it reviews existing subsidies and recommends whether they should be continued given our current circumstances.

International Commission for the Conservation of Atlantic Tunas

The issue of fishing capacity and its impact on fishery conservation is of interest not only in the United States, but also in the international fishery community. Having served the last six years as the U.S. Recreational Commissioner to ICCAT, I can assure the Committee that the body is closely examining the issue of capacity and its link to overfishing. For example, at its 2000 meeting, ICCAT adopted a measure that recognizes and encourages actions being taken by Japan and Chinese Taipei to scrap Japanese-built, illegal, unreported and unregulated (IUU) fishing vessels. Further, it supports actions being taken by Chinese Taipei to re-register and control a number of vessels owned by Chinese Taipei business entities that have been engaged in IUU fishing activities.

And previously, at its 1998 meeting, ICCAT adopted a measure to limit fishing capacity in the northern albacore fishery. A similar action was taken by ICCAT for the bigeye tuna fishery in 1999 that was intended to prevent further increases in fishing mortality, consistent with scientific advice indicating that the stock is close to full exploitation. Unfortunately, as is so often the case in international fishery management, gaining agreement on what needs to be done is far easier than ensuring compliance with the agreed-to measure. The United States needs to provide important leadership in this area.

Wallop–Breaux Program

The Wallop–Breaux Program (Program) is actually a collection of a number of boating and fishing related efforts, brought together by a common funding source—user fees paid by anglers and boaters. Recognizing that the members of the ASA typically contribute well over $100 million to the Program each year, it is easy to understand our interest and involvement in the effort. As you might imagine, given our contribution, this program is extremely importance to the recreational fishing industry.

We believe the Program is an excellent example of a user pays-user benefits program. Anglers and boaters pay a little more for their equipment and fuel and in return enjoy increased fishing and boating opportunities. These monies are deposited into the U.S. Treasury and then disbursed to state fish and game agencies for sportfish restoration, wetlands conservation, aquatic education, outreach, boat safety, and boating access and facilities projects. The cycle is completed with a return of benefits to the users through improved sport fishing and boating opportunities.

The Program was launched in 1950 when Representative John Dingell (MI) and Senator Edwin Johnson (CO) pushed for and passed the Federal Aid in Sport Fish Restoration Act. Based on a similar bill (the 1937 Pittman–Robertson Act) that placed an excise tax on specific hunting equipment, the Sport Fish Restoration Act was aimed at dealing with the expanding number of anglers and the declining quality of the resource. Utilizing the same user pays-user benefits model as Pittman–Robertson, the Dingell–Johnson Act as it became known, was an immediate boon to state fish and game agencies that previously could not provide adequate attention to fisheries due to strapped budgets. Instead of having to fund 100% of a fisheries improvement project, now under Dingell–Johnson, for every one dollar invested by the state, the Federal Government could contribute three dollars. During the years immediately following passage, monies from the collection of excise taxes vastly improved the quality of America's sport fishery resources.

However, in 1984, in response to a growing list of needs, a new set of amendments to the Program were passed spurred on by Senator Malcolm Wallop (WY) and Congressman John Breaux (LA). These 1984 Wallop–Breaux amendments expanded the list of taxable sport fishing articles to include nearly all sportfishing equipment. In addition, a 3% tax on electric trolling motors and fish finders was added along with a redirection of the tax on motorboat fuel. Further, the amendments recovered from

the General Fund fuel taxes paid on fuel used by boaters and anglers and dedicated these funds to the Program. The Wallop–Breaux amendments expanded the pool of money made available to the Program from an average of $40 million before 1984, to over $400 million today.

Since the 1984 Wallop–Breaux Amendments, the program we now know as Wallop–Breaux has undergone changes resulting from other amendments. Many of the changes increased funding for programs such as boating safety and created new programs such as the coastal wetlands and clean vessel (pumpout) programs. In 1998, the Transportation Equity Act for the 21st Century reauthorized the Program creating a boating infrastructure effort, and an outreach and communication program.

Additionally, other changes to the Act in 1998 increased the minimum percentage of state allocations to be invested in boating access and facility projects from 12.5% to 15%, and raised the maximum percentage of state allocations to be used for aquatic education and outreach and communications from 12.5% to 15%. Boating Safety programs administered by the U.S. Coast Guard also realized increased funding. (See Table 1 for Wallop–Breaux Program receipts and expenditures)

In reviewing the Wallop–Breaux program, the task force focused primarily on Sport Fish Restoration, the portion of the Program's funding that is apportioned to the state fish and game departments. Table 2 outlines state funding levels for fiscal year 2001 and Figure 1 demonstrates the increase in state funding levels since the program began.

DISCUSSION

Mr. Chairman, the task force concludes that investments in fisheries by the Wallop–Breaux Program do not "present a serious matter of concern". I would go a bit further. I believe that without the Wallop–Breaux Program, the nation's fisheries, both freshwater and marine, would be in much worse shape than they are today. Representing a number of companies that write a significant check to the IRS each quarter, on top of any Federal or state income taxes they pay, I will assure you that they do not view this as a Federal subsidy. In fact, I would argue that America's anglers, through the excise taxes and license fees they pay, subsidize the proper management of our nation's fisheries.

However, Mr. Chairman, if we ignore the fact that America's anglers and boaters are paying the bills in terms of higher prices for their sport, there still is no evidence to suggest that Wallop–Breaux has led to overfishing of our saltwater resources. Despite the substantial increase in funding that has flowed to Wallop–Breaux in recent years (see Figure 1), the National Marine Fisheries Service data in Table 3 shows no substantial increase in the number of saltwater recreational anglers or their harvest.

TABLE 1 – WALLOP-BREAUX PROGRAM

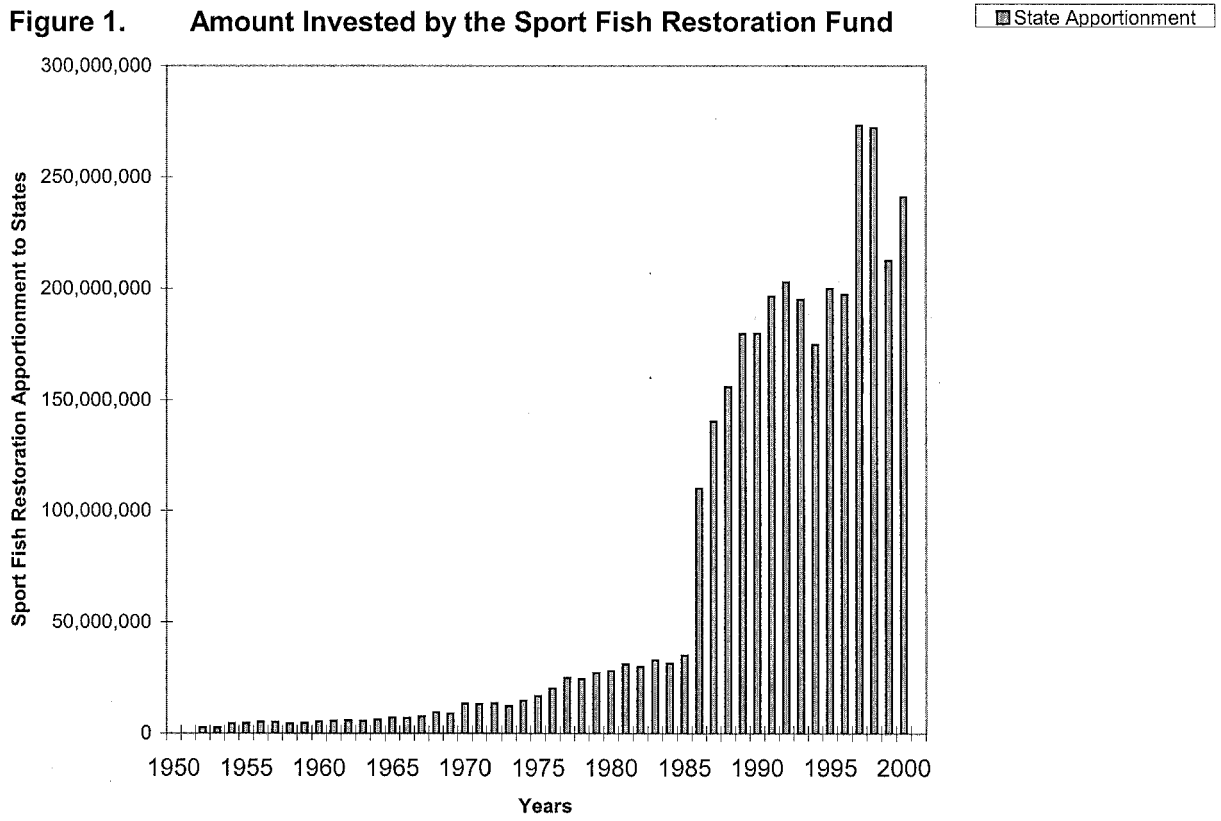
Receipts by Category	FY1998	FY1999	FY2000	FY2001 (est)	FY2002 (est)	FY2003 (est)	FY2004 (est)	FY2005 (est)
Sport Fish Rest Acct								
Motorboat Gas Tax	$114,358,218	$179,379,779	$174,889,000	$182,000,000	$210,000,000	$215,000,000	$228,000,000	
Fishing Equipment Tax	94,543,000	96,279,000	104,785,000	107,000,000	110,000,000	114,000,000	117,000,000	
Electric Sonar Tax	1,774,000	1,895,000	2,014,000	2,000,000	2,000,000	2,000,000	2,000,000	
Import Duties (Tackle/Boats)	59,767,233	26,015,070	33,911,134	36,000,000	39,000,000	40,000,000	41,000,000	
Small Engines Gas Tax	48,269,000	70,369,000	60,447,000	61,000,000	70,000,000	70,000,000	73,000,000	
Interest on Investments	53,225,683	45,961,362	41,884,187	83,000,000	85,000,000	75,000,000	78,000,000	
Total Sport Fish Rest Acct	$371,937,134	$419,899,211	$417,930,321	$471,000,000	$516,000,000	$516,000,000	$539,000,000	
		↘	↘	↘	↘	↘	↘	↘
SFRA Appropriations (Prior-year receipts)		**$371,937,134**	**$419,899,211**	**$417,930,321**	**$471,000,000**	**$516,000,000**	**$516,000,000**	**$539,000,000**
Less:								
Coastal Wetlands								
Corps of Engs		$ (46,864,079)	$ (52,907,301)	$ (52,659,220)	$ (59,346,000)	$ (65,016,000)	$ (65,016,000)	$ (67,914,000)
FWS Cstl Wtlnds		(10,042,303)	(11,337,279)	(11,284,119)	(12,717,000)	(13,932,000)	(13,932,000)	(14,553,000)
FWS N Am Act		(10,042,303)	(11,337,279)	(11,284,119)	(12,717,000)	(13,932,000)	(13,932,000)	(14,553,000)
Total Coastal Wetlands		**$ (66,948,684)**	**$ (75,581,858)**	**$ (75,227,458)**	**$ (84,780,000)**	**$ (92,880,000)**	**$ (92,880,000)**	**$ (97,020,000)**
Clean Vessel Act								
RBS Funding (CG)		$ (64,000,000)	(64,000,000)	$ (64,000,000)	$ (64,000,000)	$ (64,000,000)	$ (64,000,000)	$ (64,000,000)
Boat Infrastructure (FWS)		--	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)
Pumpout (FWS)		(10,000,000)	(10,000,000)	(10,000,000)	$ (10,000,000)	(10,000,000)	$ (10,000,000)	(10,000,000)
Total Clean Vessel Act		**$ (74,000,000)**	**$ (82,000,000)**	**$ (82,000,000)**	**$ (82,000,000)**	**$ (82,000,000)**	**$ (82,000,000)**	**$ (82,000,000)**
Other Deductions								
Outreach (RBFF)		(5,000,000)	(6,000,000)	(7,000,000)	(8,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Multi-St grants (Int'l)		--	--	(4,200,000)	(4,200,000)	(4,200,000)	(4,200,000)	(4,200,000)
Admin. Deduct. (FWS)		(13,559,307)	(15,379,041)	(9,900,000)	(9,900,000)	(9,112,000)	(9,385,360)	(9,666,921)
Total Other Deductions		**$ (18,559,307)**	**$ (21,379,041)**	**$ (21,100,000)**	**$ (21,100,000)**	**$ (23,312,000**	**$ (23,585,360)**	**$ (23,866,921)**
Total SFR Apportionment		**$212,429,143**	**240,938,312**	**$239,602,863**	**$282,120,000**	**$317,808,000**	**$317,534,640**	**$336,113,079**
Available to States								
Boat Access (15%)		$ 31,864,371	$ 36,140,747	$ 35,940,429	$ 42,318,000	$ 47,671,200	$ 47,630,196	$ 50,416,962
Sport Fish & Aquatic Ed		180,564,771	204,797,565	203,662,434	239,802,000	270,136,800	269,904,444	285,696,117

4/11/01

Table 2 - U.S. Fish and Wildlife Service Final Apportionment of Federal Aid in Sport Fish Restoration Funds for Fiscal Year 2001

State Name	Revised Sport Fish Fund Apportionment
Alabama	3,578,395
Alaska	12,042,643
Arizona	5,104,112
Arkansas	4,608,841
California	12,042,643
Colorado	6,076,753
Connecticut	2,408,529
Delaware	2,408,529
District of Columbia	802,843
Florida	6,786,688
Georgia	4,430,864
Hawaii	2,408,529
Idaho	4,184,546
Illinois	4,846,195
Indiana	3,640,742
Iowa	3,235,203
Kansas	3,583,933
Kentucky	3,544,162
Louisiana	4,161,257
Maine	2,408,529
Maryland	2,408,529
Massachusetts	2,408,529
Michigan	8,295,510
Minnesota	9,006,160
Mississippi	3,107,013
Missouri	5,790,174
Montana	5,582,909
Nebraska	3,000,164
Nevada	3,727,333
New Hampshire	2,408,529
New Jersey	2,408,529
New Mexico	4,253,966
New York	5,984,692
North Carolina	4,213,868
North Dakota	2,570,530
Ohio	6,236,489
Oklahoma	4,642,549
Oregon	5,427,038
Pennsylvania	5,948,640
Rhode Island	2,408,529
South Carolina	3,023,568
South Dakota	3,129,186
Tennessee	5,487,737
Texas	12,042,643
Utah	4,252,849
Vermont	2,408,529
Virginia	3,853,428
Washington	4,883,821
West Virginia	2,408,529
Wisconsin	7,679,996
Wyoming	3,929,060
Puerto Rico	2,408,529
Guam	802,843
Virginia Island	802,843
American Samoa	802,843
N. Mariana Islands	802,843
Total	**239,602,863**

Figure 1. Amount Invested by the Sport Fish Restoration Fund



	Number of Anglers (millions)	Harvest (million lbs.)
1991	7.5	228
1992	6.8	182
1993	8.7	206
1994	9.2	201
1995	8.7	228
1996	8.0	208
1997	9.0	234
1998	7.5	195
1999	7.8	198

Table 3. Number of marine recreational anglers and their respective harvest levels.
(Fisheries of the United States, U.S. Department of Commerce)

In addition Mr. Chairman, of the total amount of Sport Fish Restoration funding going to states each year, only about 10 percent is dedicated to saltwater projects. The remainder of the monies return to freshwater efforts. This division in funding leads to the natural question Has the Wallop–Breaux funding dedicated to our nation's freshwaters led to overfishing? I think the clear answer is NO and I believe that state fish and game departments would agree!

Wallop–Breaux is a unique example of a user pay-user benefit program. I have attached state reports provided by the U.S. Fish and Wildlife Service from Maryland and Utah for the Committee's review. I appreciate the opportunity to testify.

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Maryland 2000

Division of Federal Aid **May 3, 2001**

F-42-R-13

Investigation Of Striped Bass In Chesapeake Bay

Resident pre-migratory stocks and spring spawning stocks will be surveyed, adults will be tagged in a coordinated coastwide tagging program with FWS. Fish of appropriate sizes will be checked for C.W.T. tagged fish. The standardized juvenile recruitment survey will be continued. Striped bass harvests will be monitored to ensure compliance with quotas. Information collected by Maryland provides a reference point for future Atlantic coast striped bass management considerations.

Beginning Date: 10/01/1999
Ending Date: 09/30/2000

Sport Fish Restoration: $ 529,092.75
Boating Cost(s): $ .00

Congressional District(s): 01, 02, 05, 98

F-45-R-12

Finfish Biological Indicators

This project will provide biological support to fish kill investigations, with the intent of determining most probable cause of observed mortalities and morbidities. Solid information on causes of fish mortalities is important in fisheries management and reducing public concern.

Beginning Date: 01/01/1999
Ending Date: 12/31/1999

Sport Fish Restoration: $ 100,691.00
Boating Cost(s): $ .00

Congressional District(s): 99

F-47-E-10

Maryland's Aquatic Resource Education Program

The goal is to instill a respect for aquatic resources and the rights of others by cultivating ethical behavior, problem-solving skills and an understanding and appreciatioon of MD's aquatic resources and ecosystems. More specific educational outcome objectives are developed for each program component. Accomplished through (1) Grants program (teacher training and small contracts for educational field projects); (2) Angler education (fishing skills and aquatic ecology training via 4-day courses, 1-2 day clinics by partner organizations, special events and after-school fishing clubs); (3) Project WET teacher training workshops; and (4) Horseshoe crab rearing program with schools. Teacher training is tied to MD State Dept. of Education student performance standards.

Increasing the target audiences' knowledge and understanding of the ecology of Chesapeake Bay and other aquatic resources (in part through field training) and their problem-solving and restoration skills will contribute to the conservation and stewardship of these resources. The angler education program also contributes to the conservation, stewardship and safe and ethical use of sport fisheries and habitats.

Beginning Date: 02/01/1999
Ending Date: 01/31/2000

Sport Fish Restoration: $ 263,932.00
Boating Cost(s): $ .00

Congressional District(s): 99

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Maryland 2000

Division of Federal Aid

May 3, 2001

F-47-E-11

Maryland's Aquatic Resource Education Program

The goal is to instill a respect for aquatic resources and the rights of others by cultivating ethical behavior, problem-solving skills and an understanding and appreciatioon of MD's aquatic resources and ecosystems. More specific educational outcome objectives are developed for each program component. Accomplished through (1) Grants program (teacher training and small contracts for student educational field projects); (2) Angler education (fishing skills and aquatic ecology training via 4-day courses, 1-2 day clinics by partner organizations, special events and after-school fishing clubs); (3) Project WET teacher training workshops; and (4) Horseshoe crab rearing program with schools. Teacher training is tied to MD State Dept. of Education student performance standards.

Increasing the target audiences' knowledge and understanding of the ecology of Chesapeake Bay and other aquatic resources (in part through field training) and their problem-solving and restoration skills will contribute to the conservation and stewardship of these resources. The angler education program also contributes to the conservation, stewardship and safe and ethical use of sport fisheries and habitats.

Beginning Date: 02/01/2000
Ending Date: 09/30/2000

Sport Fish Restoration: $ 184,893.76
Boating Cost(s): $ .00

Congressional District(s): 99

F-48-R-9

Statewide Fisheries Survey And Management

To conduct statewide monitoring studies and surveys of lakes and streams; to study tidal largemouth bass populations; to implement fisheries management objectives; to conduct restoration and enhancement projects in the Potomac River watershed; to conduct a hooking mortality study; to assess macroinvertebrate populations; to conduct environmental impact investigations; and to culture hybrid sunfish.

Beginning Date: 01/01/1999
Ending Date: 12/31/1999

Sport Fish Restoration: $ 613,465.50
Boating Cost(s): $ .00

Congressional District(s): 99

F-50-R-9

Coastal Bay Finfish Investigation

To characterize stocks and estimate annual relative abundance of juvenile and adult marine species using the coastal bays and nearshore Atlantic Ocean; to delineate areas of high value as spawning and nursery areas for finfish in order to protect against habitat loss or degradation; and to investigate inshore/offshore components of managed species and to examine their population characteristics and dynamics in the coastal bay system and nearshore Atlantic Ocean. Project information will be provided for interstate fisheries management planning and monitoring efforts.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 161,904.75
Boating Cost(s): $ .00

Congressional District(s):

F-53-D-6

Freshwater Resources Conservation

Operate and maintain fish hatcheries, fish rearing stations, impoundments, visitor center, boat ramps and fishing piers. Stock cold and warmwater fish. Install artificial structures, control aquatic vegetation and soil erosion. Provide technical guidance to private pond owners and local governments.

Beginning Date: 01/01/1999
Ending Date: 12/31/1999

Sport Fish Restoration: $ 961,086.00
Boating Cost(s): $ .00

Congressional District(s): 99

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Maryland 2000

Division of Federal Aid

May 3, 2001

F-54-R-5

Stock Assessment Of Selected Resident And Migratory Recreational Finfish Species Within Maryland'S Chesapeake Bay

To collect and analyze data on age and size structure, seasonal occurrence, and relative abundance of selected resident and migratory finfish; to determine the impact of certain recreational fisheries on various resident and migratory species; to monitor the relative juvenile abundance of selected resident and migratory species in several key systems; to evaluate hooking mortality in striped bass fisheries; and to provide fish samples for disease investigations. Information will contribute to continuous inter- and intra-state fisheries management and restoration efforts.

Beginning Date: 02/01/1999
Ending Date: 01/31/2000

Sport Fish Restoration: $ 570,657.00
Boating Cost(s): $ .00

Congressional District(s): 01, 02, 05

F-55-D-3

Maryland Sportfishing Boating Access

The purpose of this project is to coordinate and administer all aspects of the Maryland Dept. of Natural Resources Fisheries Service Boating Access projects accomplished or eligible for funding under F-41-D.

Beginning Date: 10/01/1999
Ending Date: 09/30/2000

Sport Fish Restoration: $ .00
Boating Cost(s): $ 98,542.41

Congressional District(s): 99

F-56-R-2

Fish Health

To obtain a baseline health index of resident fish species in Chesapeake Bay tributaries; to monitor striped bass for evidence of ulcerative dermatitis; and to estimate the magnitude of predation on various prey items by striped bass in Chesapeake Bay. The resident fish health index will be useful in evaluating incidents which occur in Chesapeake Bay tributaries. The striped bass data will answer the question of whether prey limitations in Chesapeake Bay contribute toward increased incidence of disease.

Beginning Date: 01/01/1999
Ending Date: 12/31/1999

Sport Fish Restoration: $ 121,567.76
Boating Cost(s): $ .00

Congressional District(s): 01, 02, 05

F-57-R-1

American and Hickory Shad Restoration in Three Maryland Rivers

To restore and enhance spawning populations of American and hickory shad in the Choptank, Patapsco, and Patuxent rivers through a hatchery stocking program. Benefits are potential sportfisheries for both species and an additional forage base for other recreationally important finfish.

Beginning Date: 02/01/1999
Ending Date: 01/31/2000

Sport Fish Restoration: $ 204,161.36
Boating Cost(s): $ .00

Congressional District(s):

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Maryland 2000

Division of Federal Aid

May 3, 2001

F-58-R-1

Health and Condition of Important Chesapeake Bay Recreational Fish Species in Relation to their Forage Base

To monitor seasonal and spatial trends in the health of striped bass and their primary prey; to examine the role of nutritional health in striped bass disease; to determine whether external manifestations such as emaciation, external lesions, and infections are associated with prey species and nutrition or appear independently in the striped bass population; and to conduct experiments on the horizontal transfer of striped bass disease. This project will provide quantitative information on the nutritional status of striped bass and how it relates to their diseases and prey base.

Beginning Date: 08/01/1999
Ending Date: 07/31/2000

Sport Fish Restoration: $ 94,795.00
Boating Cost(s): $ .00

Congressional District(s): 98

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Utah 2000

Division of Federal Aid

May 3, 2001

F-26-R-24

Bear Lake Project

Ecosystem research and management is designed to enhance the native game fish species, Bear Lake cutthroat trout, and the other native members of the ecosystem. The other natives include Bonneville whitefish, Bear Lake whitefish, Bonneville cisco and Bonneville sculpin.

udwr.bnielson@email.state.ut.us

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 127,560.00
Boating Cost(s): $ .00

Congressional District(s):

F-28-R-28

Flaming Gorge/Green River Studies

To conduct fish population and creel surveys, evaluate stocking of 8" rainbow trout in Flaming Gorge Reservoir. To evaluate Flaming Gorge Reservoir tailwater trout stocking. To administer the project and maintain project facilities, sites and equipment.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 184,322.00
Boating Cost(s): $ .00

Congressional District(s):

F-41-R-4

Strawberry Valley Fisheries Management

Research will gather data that will be used to manage the Strawberry Reservoir watershed in a comprehensive way. Data collected will include sport fish population monitoring and kokanee salmon spawning. Native forage fish will be restored to the watershed. The 1990 rotenone treatment removed speckled dace and mottled sculpin, they will be restocked from lower in the watershed to attempt reestablishment.

nrdwr.rwilson@email.state.ut.us

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 144,576.00
Boating Cost(s): $ .00

Congressional District(s): 03

F-43-R-20

Utah Fishery Research-Statewide

To provide direction and coordination for the fishery research programs.

nrdwr.darcher@email.state.ut.us

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 101,730.00
Boating Cost(s): $ .00

Congressional District(s): 99

F-44-R-20

Statewide Fisheries Management, Investigations & Surveys

To monitor, evaluate and maintain sport fishery populations, and admimister the sport fishery program.

nrdwr.ggillie@email.state.ut.us

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 769,870.50
Boating Cost(s): $ .00

Congressional District(s):

F-46-R-15

Lake Powell Fisheries Investigations

Research will be conducted on predatory and forage fish populations and their interrelationships.

wgustaveson@email.state.ut.us
Fishing information http://www.nr.state.ut.us/dwr/lakpowl.htm

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 146,664.00
Boating Cost(s): $ .00

Congressional District(s):

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Utah 2000

Division of Federal Aid

May 3, 2001

F-47-R-14

Sport Fisheries Research (USU)

To investigate aspects of the biology of Bear Lake endemic fishes. To develop a model of walleye and forage fishes in three reservoirs. To study kokanee salmon and whirling disease.

Beginning Date: 01/01/1999
Ending Date: 12/01/1999

Sport Fish Restoration: $ 133,696.00
Boating Cost(s): $ .00

Congressional District(s): 01

F-50-R-14

Fishery Enhancement Projects-Southern Utah

Various projects are planned, such as studies of species interactions, management strategy effectiveness, sportfish potential of native Bonneville cutthroat trout, evaluation of performance and whirling disease resistance of hybrid trout, and collection of lake trout brood specimens and evaluation of brook trout removal from certain lakes.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 72,324.00
Boating Cost(s): $ .00

Congressional District(s):

F-63-B-16

Statewide Motorboat Access O&M

OBJECTIVE:

To operate, maintain and manage the Utah Division of Wildlife Resources' motorboat access program and the 10 motorboat access facilities currently owned by UDWR.

BENEFITS:

At the present time, there are 430,944 acres of lakes in Utah that provide recreational fishing. About 100 sites are to some extent accessible by boats. This grant contributes towards increased statewide angler and motorboat opportunity and maintaining and enhancing facilities for recreational boating and fishing in Utah.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ .00
Boating Cost(s): $ 67,572.00

Congressional District(s): 99

F-65-T-11

Seven State Colorado River Fish & Wildlife Council

To facilitate recovery coordination among experts, government entities etc. for the Colorado River natural resource issues.

Beginning Date: 11/08/1999
Ending Date: 09/30/2000

Sport Fish Restoration: $ 3,375.00
Boating Cost(s): $ .00

Congressional District(s): 99

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Utah 2000

Division of Federal Aid

May 3, 2001

F-74-R-10

Fish Health Inspection Program For Wild Broodstock

To protect and expand the use of wild brood fish resources by providing for a comprehensive program of fish health inspection and disease monitoring for wild brood fish from various waters and culture programs, which are considered valuable for incorporation into fishery management.

fesdwr@cc.usu.edu

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 113,814.00
Boating Cost(s): $ .00

Congressional District(s): 99

F-83-R-9

Identification & Assessment Of Purity Of Utah Cutthroat Trout

To conserve the genetic variability of native cutthroat trout and to ensure the long-term survival of the species.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 41,347.50
Boating Cost(s): $ .00

Congressional District(s):

F-84-M-9

Fish Hatchery Operation and Maintenance

To efficiently operate and maintain the Glenwood, Fountain Green, Midway and Springville fish hatcheries for the annual production and distribution of 4-5 million trout weighing about 544,000 pounds.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 1,054,782.00
Boating Cost(s): $ .00

Congressional District(s):

F-89-R-6

Statewide Whirling Disease Laboratory Analysis

To determine the presence or absence of whirling disease in wild fish populations. To provide information that can be used to better manage and attempt to control the disease.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 54,318.00
Boating Cost(s): $ .00

Congressional District(s):

F-90-T-7

Statewide Protection of Aquatic Habitat (Technical Assistance)

To provide technical advice to avoid, minimize and/or otherwise mitigate impacts from projects which are planned by State, Federal and private parties and which have the potential to affect aquatic-related habitats and wildlife.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 171,220.50
Boating Cost(s): $ .00

Congressional District(s):

F-91-R-6

Fisheries Enhancement Project - Northern Region

To describe distribution patterns and relative abundance of fishes in Willard Bay from 1994 through 1999 after introduction and establishment of gizzard shad. To describe changes in the panfish populations in Pineview and Newton reservoirs, following introduction of tiger musky.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 58,371.00
Boating Cost(s): $ .00

Congressional District(s):

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Utah 2000

Division of Federal Aid

May 3, 2001

F-92-M-6

Aquatic Habitat Operation, Maintenance, Management & Technical Assistance

OBJECTIVES:

1) Plan and coordinate the implementation of aquatic and riparian habitat restoration and angler access projects

2) Provide technical assistance and input to other state agencies, federal agencies, local governments, private corporations and/or individuals on proposed aquatic and riparian habitat restoration projects and stream alteration permit applications

3) Coordinate the operations and maintenance of Utah Department of Wildlife Resources-owned or controlled aquatic-related lands and facilities.

EXPECTED RESULTS AND BENEFITS:

1) The effective planning and coordination of aquatic and riparian habitat restoration projects and the enhancement of angler access to contribute to sustaining the estimated 3,926,202 annual angler days of recreational fishing in Utah.

2) Ensure quality aquatic projects are implemented by providing assistance and input on aquatic and riparian habitat restoration and/or enhancement projects and stream alteration permit applications from state and federal agencies, local governments and others.

3) Routine operation and maintenance of aquatic lands and facilities will guarantee that the objectives for which those lands and facilites were acquired and/or developed will continue to be met.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 255,609.00
Boating Cost(s): $ .00

Congressional District(s):

F-95-R-6

United States Geological Survey Research: Approval Of Drugs For Public Fish Production

To investigate and register priority chemical therapeutants for use in public and private aquaculture.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 15,000.00
Boating Cost(s): $ .00

Congressional District(s):

F-96-R-5

Fisheries Research - Fisheries Experiment Station

To further understand the impacts and dynamics of whirling disease in an effort to control the disease and manage the fisheries of WD+ waters.

Beginning Date: 07/01/1999
Ending Date: 06/30/2000

Sport Fish Restoration: $ 226,400.25
Boating Cost(s): $ .00

Congressional District(s):

F-98-B-13

Statewide Motorborat Access Development

To provide motorboat/fishing access improvements on public waters in Utah for increased angling opportunity at Yuba State Park. The specific work involves construction of a fish cleaning station.

Beginning Date: 06/01/1999
Ending Date: 12/31/1999

Sport Fish Restoration: $ .00
Boating Cost(s): $ 24,375.00

Congressional District(s):

U. S. Fish and Wildlife Service

SUMMARY OF SPORT FISH RESTORATION

Utah 2000

Division of Federal Aid

May 3, 2001

F-98-D-MA-11

Statewide Motorboat Access Development (Joe'S Valley Reservoir Fish Cleaning Station)

To construct a fish cleaning station near the Joe's Valley Reservoir boat ramp to provide facilities to anglers and improved sanitation and water quality.

Beginning Date: 07/15/1998
Ending Date: 12/31/1999

Sport Fish Restoration: $ .00
Boating Cost(s): $ 29,784.00

Congressional District(s):

F-98-D-MA-9

Statewide Motorboat Access Development (Lake Powell-Halls Crossing Marina)

To improve restroom, fishing and boating information center, emergency medical aid faciltiies and related support facilities at Hall's Crossing Marina, on Lake Powell in southern Utah to improve the quality and safety of the angling experience for the public using this site.

Beginning Date: 05/01/1998
Ending Date: 09/30/2000

Sport Fish Restoration: $ .00
Boating Cost(s): $ 453,036.00

Congressional District(s): 03

F-99-R-2

Biotechnology For Whirling Disease (Utah State University)

To produce monoclonal antibodies against key antigens associated with whirling disease. To produce triactinomyxon spores for other aspects of this grant. Invitro culture of trophozoites. This study may greatly advance the knowledge of whirling disease.

Beginning Date: 01/01/1999
Ending Date: 12/31/1999

Sport Fish Restoration: $ 171,396.75
Boating Cost(s): $ .00

Congressional District(s): 01, 02, 03, 99

FW-8-D-33

Statewide Tax Levies

To provide payments in lieu of taxes to 25 counties of the State of Utah for Federal Aid acquired lands.

Beginning Date: 12/01/1998
Ending Date: 11/30/1999

Sport Fish Restoration: $ 2,098.50
Boating Cost(s): $ .00

Congressional District(s): 99

FW-16-C-60

Fish & Wildlife Grantee Administration

To effectively administer the Wildlife Restoration and Sport Fish restorations programs and the land acquisitions for the benefit of the people and resources of Utah.

Beginning Date: 10/01/1999
Ending Date: 09/30/2000

Sport Fish Restoration: $ 57,225.00
Boating Cost(s): $ .00

Congressional District(s):

Mr. GILCHREST. Thank you very much, Mr. Nussman.

I think just for a second we will stick with that point. The overcapacity problem, as we are hearing this morning, is enormously complex and it has different solutions from different perspectives from a whole range of different interests. My perspective on overcapacity, which has been stated here this morning, is too many people catching too few fish. So if we want to sustain the fisheries we need to have a reduction in effort.

So if we look at it from that perspective, to sustain the fisheries and have a reduction in effort, does that include recreational fishermen into the mix of understanding the nature of overcapacity?

And this is probably a relatively, depending on who you ask, small piece of the puzzle, small part of the problem. But Dr. Kirkley, could you address the issue of overcapacity and the potential of including recreational fishing into that mix and what you meant by that statement?

Mr. KIRKLEY. The recreational component, we have been wrestling for about three or 4 years, we being individuals and the National Marine Fisheries Service, other academicians and people employed in state agencies, trying to come up with this concept of capacity in a rec fishery. We think we know some ways you can measure it, we think we know some ways you can define it, but we are not sure what to do with it if we do get it. There is no doubt in my mind what you will end up being confronted with is eventually probably adoption of more formal procedures for allocation of resources, which is where this is going to be going in the future when you have competing resources. Someone is going to have to allocate commercial and then allocate recreational.

Mr. GILCHREST. Is the recreational effort in the fishery significant enough to be considered?

Mr. KIRKLEY. In some fisheries it very well could be. You could take the case of striped bass in Virginia and Maryland, also. Right now there is a series of limits, slot limits, that are keeping things under control but the recreational angler has the capability to take quite a few more striped bass. We know there is some poaching going on here and there and what is going on is because of a fishery like that, in fact, you are having increasing pressure up and down the coast to declare it a gamefish only status and remove it from the commercial sector.

You have—I am sorry I cannot remember—six or seven or eight states' jurisdictions right now that prohibit the capture and/or commercial sale of striped bass. Washington, D.C. is one of the states that prohibits the commercial capture of striped bass.

Mr. GILCHREST. You mentioned striped bass. Can I ask you about summer flounder and recreational effort? Does that contribute to overcapacity?

Mr. KIRKLEY. In terms of the total picture and level of removal it has to. Along the eastern shore, the East Coast of the U.S., particularly from New York down to North Carolina, there are a lot of anglers who catch summer flounder and retain them. Again though, I think you are going to be looking at cases of allocation.

In other words, I guess in the big scheme of things I see less damage done by having excess capacity in the rec sector than I do in the commercial sector.

Mr. GILCHREST. Less damage in what way?

Mr. KIRKLEY. In terms of damage to the resource and in terms of lost benefits to society, in terms of negative economic connotations and impacts. You could probably deal a little better with, handle or accept some economic waste, some lost benefits associated with the recreational excess capacity than you could accept relative to excess commercial capacity.

In the case of summer flounder, there are a lot of anglers and they do catch a lot of summer flounder.

Mr. GILCHREST. When we are considering overcapacity, almost from an academic perspective there is overcapacity in the commercial sector and you would also consider overcapacity in the recreational sportfishing sector but the way to reduce that overcapacity would be different in the two sectors. One would be possibly a buyout; one would be more of a regulatory timeframe scheme for access to the fishery.

Mr. KIRKLEY. Yes, sir. That is exactly the way I would do it as working best. In the case of the flounder you have a quota and you have daily limits. When you reach your limits, you are over and done and the damage is not so horrible to society from that as you might have by allowing the excess capacity to continue in the commercial fisheries.

Mr. GILCHREST. Mr. Nussman, would you agree with that statement, that the damage done is not so horrible? And do you think that recreational fishing activity, for example, for something like striped bass or summer flounder, should be a consideration in the overall scheme of things when we look at overcapacity?

Mr. NUSSMAN. You have asked about three or four different questions inside of two.

Mr. GILCHREST. You can answer them any way you want because I probably do not remember two of them.

Mr. NUSSMAN. Let me try, if I could. First, I think recreationally if you look nationwide at all our marine fisheries, according to the National Marine Fisheries Service, recreationally we harvest 2 percent of the total take, between 2 and 3 percent. So as a nation in saltwater recreationally, the harvest is about 2 to 3 percent per year; 98 percent is being harvested commercially.

Mr. GILCHREST. Could that be a higher percentage in a specific fishery?

Mr. NUSSMAN. In some fisheries we harvest 100 percent. In some, like striped bass, we harvest the majority. In some, like summer flounder, we are supposed to harvest slightly less than a majority. So it certainly is fishery-dependent. There is absolutely no question about that.

But your first question was is it less onerous or less horrible, whatever the phrase you used, less bad in recreation? I think people go recreational fishing because it is fun. The same reason they go to movies—it is fun. If it is fun to go out there and they catch some fish, they are going to go back.

Now maybe some fisheries, if you go and you catch one bluefin tuna, that is a lot of bluefin tuna to catch for a day. If you go out and catch one spot, that is a very different dynamic there.

So yes, the ranges of acceptability, because you are not planning on—you do not, at the end of the day, have to sell it and make your

living from it, are broader than they would be in the commercial sector.

Having said that, unfortunately for us, I believe, quite often the impacts of disadvantaging the recreational sector are much more diffuse and harder to trace than the impacts of disadvantaging the commercial sector. Does that make sense?

Mr. GILCHREST. Yes, it does. Thank you.

I think we may have another round of questions. Last comment, Mr. Nussman?

Mr. NUSSMAN. I was going to try to get to the third question.

Absolutely you have to take into context recreational catch in any rebuilding plan. But we have a series of tools that work very well for recreation—size limits, bag limits, season—that work in freshwater, that will work and work in saltwater. We just need to learn how to use them well.

Mr. GILCHREST. Thank you very much.

Mr. Underwood?

Mr. UNDERWOOD. Thank you, Mr. Chairman. I want to ask three questions and let me start with Mr. Blue.

Mr. Blue, you discussed a kind of buyback series of events in Alaska, some which are industry-funded. So what do you propose as an appropriate ratio for what should be industry-funded in terms of buyback programs?

Mr. BLUE. Thank you. The appropriate ratio is probably going to have to be arrived at fishery by fishery. It depends upon a lot of factors—the value of the fleet that is being retired, the present value of the fishery, and so forth.

In the case of the Bering Sea crab fisheries, we were quite comfortable with the program that we designed as a 100 percent industry-funded program until we had collapse of the fisheries, and redefinition of catch rates is part of the rebuilding, which we support. We need to have conservation of the fisheries first of all, of course.

So, at our instance, we have been reduced to a 50 percent ratio. We have done this as a calculation in our business plan, which we submitted as part of the program definition.

Mr. UNDERWOOD. Thank you.

Mr. Grader, in the Capital Construction Fund, and this goes back to a question I asked of the earlier panel where there seems to be a contradiction between the buyback and the use of the Capital Construction Fund.

Would it be reasonable to assume that if you participated in the Capital Construction Fund that you should be precluded from participating in a future buyback?

Mr. GRADER. I think I would look at it a little bit differently. I think perhaps what is needed here is an amendment to the Capital Construction Fund that where a fishery is being considered for a buyback, where there is excess capacity, that those individuals who have invested, put money into the Capital Construction Fund, could take it out in the form of—and I think Mr. Blue had this in his testimony and I certainly agree with it—in the form of either a retirement program or something else. In other words, they are not reinvesting. They are not putting that money back into the fishery.

I think the Capital Construction Fund could be amended to actually help us provide incentives for reducing capacity.

Secondly, I think the thing that is important in Capital Construction Fund, and it is something that we use in other industries, as well is allowing fisherman to put aside funds for bad years—we allow farmers to put money aside. Because fishing varies from year to year. In the fisheries we need to get away from having funds out there that will potentially increase the catch capacity. But certainly we need the Capital Construction Fund. I think, to allow fishermen to put money aside for such things as improving safety equipment on their vessels, improving the ability to hold fish in such a way that they can increase the value of the fish that they catch; that is, better product quality. Everybody benefits from that. And then third, the whole issue of fuel efficiency has to be addressed so they can invest in the type of technologies that will allow their vessels to be more fuel-efficient.

Those are the ways I would see Capital Construction Fund being amended but certainly it can be part of the whole package of helping us reduce fleet capacity.

Mr. UNDERWOOD. Thank you. Very thoughtful answer. I appreciate that very much.

Mr. Burns, the FAO plan of action calls upon all nations around the world to reduce capacity. How do we propose to enforce that, particularly if on our end we continue to reduce tariffs on foreign fish being imported to the U.S.? What kind of leverage do we have in order to enforce a worldwide reduction in capacity?

Mr. BURNS. The FAO plan of action itself does not provide any real authority for enforcement. It is a voluntary plan. I think personally that the best way to make progress with overcapacity in the context of other nations' fleets is through U.S. bilateral relationships with individual countries. We meet about fisheries with most of the major fishing states in the country on a regular basis.

In addition, in the context of the regional management organizations, like ICCAT and the ITTC and the new treaty organization that is just being established in the Western Pacific, to use the U.S. presence in those bodies to push for capacity reduction where it is important.

Mr. UNDERWOOD. Thank you.

Mr. GILCHREST. Thank you, Mr. Underwood.

Mr. Saxton.

Mr. SAXTON. Let me just touch on two subjects that I think are important. First of all with regard to the reauthorization of Magnuson, let me ask first Mr. Burns.

There is stated in the purposes of the Magnuson Act two purposes which seem to me to contradict each other or conflict with each other. In one section of stated purposes it says the purpose is to take immediate action to conserve and manage fishery resources found off the coast of the United States. And, of course, we have touched on that several times today, overcapacity and better ecosystem management, et cetera, et cetera. It is all talking about how to conserve sea creatures.

Then you move on to the sixth stated purpose. It says to encourage the development of the United States fishing industry. Then,

to be fair, it goes on to say "of fisheries which are currently underutilized or not utilized by United States fishermen."

I have always thought that there is a conflict between those two purposes and I guess I am interested in your take on that. My take is that we have seen the collapse of fisheries and you can kind of walk your way down one coast and across the gulf and up the other coast and you can count the fishery collapses that we have seen, starting with groundfish in New England, striped bass along the Atlantic coast, coastal sharks along the Atlantic coast, redfish in the Gulf of Mexico, sea urchins on the West Coast, salmon.

It is kind of discouraging and I believe that a case can be made that one of the reasons that we have seen those collapses is because of this conflict in purpose that we give the regulators that have the job of taking care of these things; namely, the National Marine Fisheries Service. What do you think?

Mr. BURNS. Obviously I agree. I think that the Magnuson Act, like a lot of other U.S. laws, has been sort of like Troy—one layer on top of the next. The provision which deals with the development of fleets in the U.S. is, I think, a relic of the original intent of the framers of the act. I think it is similar to a lot of the subsidy programs that we see that are still in place in the United States and elsewhere in the world. They were put in place at a time when there was a desire to expand fleets that were smaller but they have in many cases outlived their useful lives.

I think one of the things that you are hearing today and one of the things that I think came across both among the members of our task force but also from the many people who came to the regional meetings we held and spoke before us is that there is a real consensus in American fisheries today that most fisheries are overcapitalized and that there is a desire to make them smaller rather than larger with a very few exceptions.

So I would agree that the provision that you mentioned probably is not especially relevant in most fisheries today. It probably is not consistent with the desires of either the conservation community or the fishing community and, as a number of witnesses have said, a real emphasis in the next reauthorization ought to be on dealing with the need to downsize fleets in a lot of cases.

Mr. SAXTON. May I ask the rest of you to briefly comment? Mr. Blue?

Mr. BLUE. With respect to buyback programs in the past, we have seen that they mostly provide an incentive to get out and I would like to say that in building programs for the future we would do well to consider the impact on the people remaining. So we need to make sure that the conservation basis is well established going forward and I think that will provide the primary incentive for these things to work, both now and in the future.

Mr. SAXTON. Thank you very much, Mr. Blue.

Mr. GRADER. Congressman Saxton, I think you have pointed out a very big problem that we have had in the law. Having been around when we were pushing to get extended jurisdiction, I can remember full well that the intent of many of our members on the West Coast—in fact, it was one of our West Coast congressmen, Don Clausen, in fact, who introduced the first extended jurisdiction

bill back in 1969 at our urging—the intent was to get rid of the foreign boats.

Unfortunately, I think because of the times, people felt the only way we could get rid of the foreigners was showing that we could utilize those resources, so what we did, we got into this Americanization frenzy when we probably should have just said stop, get rid of the foreign boats, let us go out and find out, do independent surveys and find out how much fish we have there and then design how we then want to build up a fleet that can take advantage of those resources.

We did not do that and that has been one of my arguments here, that I think specifically on Pacific Coast groundfish and some of these other fisheries that were under FMPs, that is, the Federal plans, where we did see a build-up—people were encouraged to build up—those fleets, I think there is a clear Federal obligation that at least the Federal Government should be assisting in helping with those buyback programs whether that assistance is 100 percent or 50 percent, as has been suggested by someone in the Pacific ground fishery. I think there is a clear Federal obligation there.

That Federal obligation is to be distinguished, say, from some of the state managed fisheries, for example, squid on the West Coast. If, in fact, it was found that a state managed fishery was overcapitalized, it would be the state's responsibility or perhaps industry's for addressing a buyback.

I should add one other thing in passing, that in the case of urchins on the West Coast, keep in mind that urchins for many years were considered a pest. California at one time was actively involved in destroying urchins. In fact, it was the urchin industry that sought the legislation to establish management over the fishery, and there really was no deliberate overfishing. The state and the industry are trying to find out what the proper level of fishing is. So I would hope that urchin not be categorized with some of the other disasters we have had because it is certainly a separate case. Thank you.

Mr. SAXTON. Thank you for pointing that out.

Mr. Kirkley?

Mr. KIRKLEY. I am probably going to be the odd person out but I do not see this as that serious a conflict. What I see in terms of encouraging the development is a need for tweaking of the language.

Currently Sea Grant, through its various marine advisory programs around the United States, has a tremendous commitment and has done a phenomenal job of assisting industry to develop fisheries, to develop new products. So I would like to see that be maintained in the language where just the tweaking of the language and the emphasis would be altered. You might, for example, encourage market value-added-type products.

In cases of underutilized fisheries, we are doing a lot of work right now. In New Jersey and Maryland, North Carolina we have a critter called the cow-nosed ray. You have probably never eaten it but if you have been out recreationally fishing you have seen it. It is a monster of a critter and it does a lot of damage. It wipes out oyster beds and clam beds. We are doing tremendous work

right now to try to get processors to work with us to develop portions that you could sell at the restaurants and at grocery stores.

So I really would not want to see the language on encouraging development removed. I would like to see some continuation but make it more specific to aiding industry and enhancing efficiency of America's fishing industry. Thank you.

Mr. SAXTON. Mr. Nussman?

Mr. NUSSMAN. All I would add would be that to agree with my colleague here, I think we have moved from a point of Americanization of the fleet to now where we have unfortunately much more difficult needs. We need to get it right sized. We made it all American and now we need to make sure it is right-sized, that it is profitable and that it, in fact, fishes in a way that is sustainable.

So I do not know that the idea of promoting is a bad one. Maybe we have just gone too far down one of the paths. Thank you.

Mr. SAXTON. Thank you, Mr. Chairman.

Mr. GILCHREST. Thank you, Mr. Saxton.

I had some other questions and Mr. Kirkley, you teased my imagination. What was the name of that fish that in an underutilized fishery that might be used for restaurants and dinner tables that is quite a beast?

Mr. KIRKLEY. Cow-nosed ray.

Mr. GILCHREST. Cow-nosed ray?

Mr. KIRKLEY. Yes, sir.

Mr. GILCHREST. Now you say it does a lot of damage because it eats oysters, clams?

Mr. KIRKLEY. They tend to herd together in large schools and like you have seen bluefish, they go into a feeding frenzy and they will come into a shallow area that has a clam bed in there and in 20 to 30 minutes time they can devastate a clam bed or an area of high concentration of oysters.

Mr. GILCHREST. So you are saying we have to get rid of this for doing that?

Mr. KIRKLEY. No, I am not saying we have to get rid of the cow-nosed ray. We would be out of whack with the ecosystem if we eliminated the cow-nosed ray but at the same time, it offers an option particularly for fishermen, in-shore fishermen from New Jersey to North Carolina to redirect their effort off of other species that are overfished—for example, blue crab, which has serious problems in Maryland and Virginia—and to start still collecting an income and making a decent living at what they are doing.

Mr. GILCHREST. This is a fish that has not been commercially caught before or eaten?

Mr. KIRKLEY. On a regular basis it has not been commercially harvested nor has it been regularly consumed by humans.

We have lots of interesting cases in our waters like that.

Mr. GILCHREST. What does it taste like? It does not taste like chicken, does it?

Mr. KIRKLEY. No, and it does not taste like lobster, either. But a good idea with it that we have been experimenting with is Tex-Mex. You can do an awful lot with Tex-Mex.

Mr. GILCHREST. Tex-Mex? A lot of seasoning?

Mr. KIRKLEY. Yes, sir. It is a food style, Tex-Mex.

Mr. GILCHREST. There is a weatherman on the lower Eastern Shore that can make catfish taste like crab meat and you could not tell the difference.

Mr. KIRKLEY. We need more of that.

Mr. GILCHREST. What is the natural predator of the cow-nosed ray?

Mr. KIRKLEY. I guess the only natural predator we are going to have that we can readily identify probably would be coastal pollution and humans more than anything else.

Mr. GILCHREST. Are you familiar with some of Farley Mowat's books?

Mr. KIRKLEY. With whose?

Mr. GILCHREST. Farley Mowat.

Mr. KIRKLEY. No, sir, I am not. I have four kids; I do not read anymore.

Mr. GILCHREST. Oh, I see. That will happen, or if you are a Member of Congress you find it difficult, too. Thank you, Dr. Kirkley.

Mr. Blue, you said that there is two-thirds of the fishermen that were in the crab fishery in the Bering Sea that favor some type of industry buyback for overcapacity. The crab fishery in the Bering Sea you said was in trouble, there needs to be or one of the solutions would be a buyback program in the crab fishing in the Bering Sea.

Could you tell us what is the status of that buyback program right now and the reason for crab fishing in the Bering Sea, what caused the problems with that crab fishery?

I just wondered also, you said that the king crab had a problem before and there was a buyback program in that fishery or there was some effort to bring the king crab back and is the king crab coming back?

Do you want me to start over again? I asked you about six questions.

Mr. BLUE. Thank you, Mr. Chairman. I will try to answer your questions in inverse order and then you can remind me if I forget any one of them.

With respect to king crab, there was no buyback. In fact, when the king crab fishery collapsed in 1982 there was widespread and large scale bankruptcy of harvesters and processors and some of the Western Alaska communities were very profoundly impacted.

Mr. GILCHREST. How fast did it collapse? How much warning was there before the collapse?

Mr. BLUE. I have included for the record some extensive data tables and in the case of the Bristol Bay red king crab fishery we went from 128 million pound harvest in 1980 to 32 million in '81 and 3 million in '82 and zero in 1983. It was quite a bad collapse and in terms of revenue it was very dramatic.

Mr. GILCHREST. In 1980 no one was able to predict that was going to happen?

Mr. BLUE. No one was—

Mr. GILCHREST. No one was able to predict that that was going to happen?

Mr. BLUE. Well, the fishery managers at the time certainly were not predicting it. The cause of the collapse is still, if you review the old papers, indeterminate. So what I am telling you today is that

the excess of fishing capacity in the fishery was certainly a factor and certainly, in my opinion, a large one.

Mr. GILCHREST. Did many of the king crab fishermen then go to other fisheries?

Mr. BLUE. Yes. That actually contributed to the rapid buildup of effort in the groundfish fisheries. Many king crab vessels, the largest vessels, were reconfigured and re-equipped to fish pollock. Many of the pollock fishermen that went through the American Fisheries Act, started from king crab and then were impelled into that fishery by the king crab collapse.

There is no ready area of refuge available these days, anywhere in the nation, certainly not in our fisheries in Alaska.

We harvested 243 million pounds of opilio crab, in 1998. We had a 185 million pound harvest in 1999. We had a 33.5 million pound harvest in 2000 and a 25 million pound harvest in 2001. So we are looking at the same sort of disastrous decline in that stock, as well.

We have a very serious problem. We have several other fisheries in the area which have been closed in an effort to rebuild them so the total combined income has diminished drastically.

Mr. GILCHREST. Is the red king crab coming back at all?

Mr. BLUE. Not very successfully but it has somewhat and we have had lots of years of working on this. The red king crab fishery produced 8 million pounds in 2000. We have tried effort limitation to try to reduce the sheer number of pots. The red king crab fishery only lasts for four or five days and we have pot limits in effect. We have all kinds of regulations that are especially designed for this fishery and I went into these in great detail in the written testimony. It is something we just try our best to control by reducing the number of vessels.

Mr. GILCHREST. And you are a crab fisherman in the Bering Sea?

Mr. BLUE. That is right.

Mr. GILCHREST. And you mentioned that there is overcapacity in that fishery?

Mr. BLUE. That is right.

Mr. GILCHREST. Has there been or is there a buyout program in that fishery now?

Mr. BLUE. There was provision for one that was passed last year as part of that appropriation 4577, the Capacity Reduction Act for crab in the Bering Sea. It is scheduled to occur by the end of this year but is lacking funding at this point. We need an appropriation to help it go forward.

Mr. GILCHREST. Will that buyout then be done completely with an appropriation from the Congress or is there some industry money involved in that, as well?

Mr. BLUE. Yes, the industry money is in the form of a loan from the Fishery Obligation Guarantee program, Title 11 funding, and it will be paid back over 30 years by assessment of the fleet.

Mr. GILCHREST. In that crab fishery buyout program in the Bering sea, the one you just mentioned, will that be a comprehensive buyout program where the permits are bought up or eliminated, the vessel cannot go into another fishery? What then happens to the vessel?

Mr. BLUE. That is something that we have not tried to define. That has been intentional because we have several hundred small

businessmen who are used to finding opportunities for themselves. A number of these vessels came into our fleet from oilfield supply and service work and so we think that those boats can reconvert and go back to that kind of work. I have heard there is some demand for it.

I talked to a lot of guys this winter when I was out on the grounds and a few told me they enjoy their boats so much that they were going to just turn them into yachts, keep them parked at the dock, and putt around once in a while. Others—

Mr. GILCHREST. Take it down to Miami.

Mr. BLUE. —are going into research activities, and so forth. Everybody is thinking of other things to do but fishing is not a part of it.

Mr. GILCHREST. Mr. Saxton?

Mr. SAXTON. Thank you very much.

I listened very carefully to each of your responses to my question in the last round and first of all, let me take sea urchins off the table. I do not know about the sea urchin problem or even if it is a problem but I have heard and that is why I included it and I apologize if I am wrong on that.

Mr. Kirkley, I listened to your response, as well, and as I sat here while the Chairman was asking his questions I was trying to think how we might tweak this, as you put it, I think, to kind of redirect effort. I cannot, at least so far, come to the conclusion that I agree with you.

Our history since we kicked the foreigners out of the 200-mile limit with this law written the way it is and the emphasis placed on development of various fisheries and conservation of various fisheries, leads me to continue to believe that when we directly or indirectly create a market for seafood of some kind we exploit that market and then it becomes profitable to exploit that market, then we overexploit that market and it happens over and over and over again. It happened with all of the examples that I gave earlier, with the exception of—you have to teach me about sea urchins; I do not know about them. But it happens over and over again.

For the last two years I have looked at numbers on highly migratory species and it is happening with targeted highly migratory species and it is happening with untargeted highly migratory species. And this is the law that we passed that creates the situation that has historically proven to make that happen and I do not know how you tweak that. I would love to accommodate everybody and do a little tweak that solves the problem but we have a huge problem and it has its basis, I believe, in this conflict.

So I am not quite sure how we could accomplish the tweaking without doing major surgery on this thing and maybe I am in the minority; maybe the folks who agree with you will win out on this but I am certainly going to make an effort to try to do something that is more productive.

Here we are talking about spending Federal money to reduce capacity and we are talking about spending Federal money to reduce capacity because we want to find conservation measures to help us figure out how to stop ripping marine life out of the ocean, and yet we have a provision in this law that says we need to develop fisheries.

I do not know if anybody wants to comment. I just wanted to say that.

Mr. GRADER. If I can, Mr. Saxton, I think that you have brought up an interesting issue. What we are looking at in some of our fisheries is where we have now determined what the limits are and that we can harvest at a safe limit and have established those limits, the question then becomes how can we get the maximum economic value for what is being harvested?

So you are absolutely right. The example of the red drum, for example, in the Gulf of Mexico where all of a sudden we have built up the market and the next thing we knew it was overfished. I think what happened there is we put things in the wrong order.

If we can first establish what level of harvesting capacity or what level of harvesting any individual species or species complex will take, and then begin looking at marketing. It is probably going to be a lower harvest rate for many of these fisheries than we are currently at. The question then is, how can we still maintain the economic value of that fishery? That, I think, as Dr. Kirkley has said, is to begin looking at better product forms.

On the West Coast, for example, we now have rebuilt our sardine fishery, which is the first big fishery to collapse in the U.S. It took 50 years to rebuild it. We are now at a stage where we are really at a decision point. We know what level of harvesting capacity we ought to have but the question becomes do we want to have that resource harvested by 80 boats taking, say, 50 or 70 tons a night and all going to be ground up or going for cheap canned product or do we perhaps want to expand it, having more vessels but harvesting at a much less capacity, say at 2 tons per vessel per night, directing that fish into a fresh market where the fish could go into white tablecloth restaurants where we could get far more value for it?

So that is the real issue. It is first coming up with a limit on what we think is reasonable to harvest and then, secondly, getting at the most economic value. That is important for the fisherman but that is also important for our communities.

And it is not unique, I do not think, to fisheries. We are looking at the same thing in timber, for example. Do you want to export raw logs or do you want to keep those logs in the community, perhaps harvesting less from our national forests but getting more value from them by doing the milling and everything else locally?

Mr. SAXTON. Thank you.

Mr. BLUE. May I respond, also? Thank you.

I would just like to add that I guess the way we do things in this process is we define a problem and then we build a machine, a regulatory sort of machine, to solve the problem. Then we wire the governor to maximum speed and we turn it loose. That goes on in Capital Construction Funds, as an instance; it goes on and does what it does until somebody says hold it, we have to turn this off or slow it down. We do not have any mechanisms built in in advance to govern these programs.

We did not appreciate at the time that these programs were designed that we would run into these problems. But having run there, I am not sure that the right action is to dismantle them and rebuild a new program to, for instance, decapitalize the fisheries.

We certainly do not want to design a program in that same way because we will turn the engine on, get it going, and pretty soon there will not be any boats. We will be hearing from everyone that we have to rebuild our fleets, we have to do this and that.

So I think that maybe a key is, in this policy that is being designed right now, for the capacity of the fisheries. We have to devise a method for determining what the carrying capacity of these fisheries really is and then we need to tinker with our program so we have a throttle and we can turn capacity down and turn it back up, as necessary, specifically on a fishery by fishery basis.

Mr. SAXTON. If I may, I like your analogy with the throttle. The problem is we get about 16 hands on the throttle pulling in different directions.

Mr. Burns, would you like to comment?

Mr. BURNS. I guess I would just say that it does not seem to me that the idea of changing the overarching message that is sent by the provision that you mentioned is necessarily inconsistent with the need to also look at fisheries on a case by case basis. I mean I think our message ought to be now that promoting the development of fisheries is generally speaking not the direction that we want to go in and I think fishermen agree with that.

At the same time, I think from the fisheries that you have heard about today it is apparent that every one is complicated and different. They are politically complicated, they are economically complicated and we really do need to look at them one at a time. But I think what the Congress can do is provide an impetus to make that happen by creating some sort of a framework within the act that forces the councils to really examine the state of capacity in the fisheries that they manage and in cases where there is an overcapacity problem to take timely measures, whatever they happen to be, to address the problems.

Mr. SAXTON. Thank you, Mr. Chairman.

Mr. GILCHREST. Thank you, Mr. Saxton.

One last question, I guess in that line of thinking where you wire the throttle so you cannot pull it back and when you can pull it back there are 16 different people pulling on the throttle.

The Capital Construction Fund. The direction I guess we want to go here is to reduce capacity and to some extent the Capital Construction Fund has helped maintain capacity across the fisheries. So I do not think I heard anybody here mention today that we want to do away with the Capital Construction Fund and we do not want to take that message and incorporate that into any reauthorization. But I guess as we look at the Capital Construction Fund and its mechanism, we have to look at all the fisheries, I would guess, to see the North Pacific fishery compared to the New England fishery and one will be older soon, if not already, and need some construction. So that program will need to to some extent remain viable for those who need it, especially for safety concerns. So it is an extraordinary system.

I do not know if anybody wants to respond to that aspect of it. Mr. Grader?

Mr. GRADER. I was just going to say perhaps what we need to do is rename the Capital Construction Fund to the Capital Correction Fund and be able to use it in a way to both help us take ves-

sels out if we need to or direct the money where it is needed in the fleet, which is very definitely, as Mr. Blue can attest to, the problem they have with vessel safety, the recent tragedy in Alaska, the problem with getting better product quality, the problem of having our vessels be more fuel efficient.

Mr. GILCHREST. Mr. Blue?

Mr. BLUE. I will certainly second that notion. One way, for instance, that we can use Capital Construction Funds to help reduce capacity and reduce the threat of additional capacity is to allow people to take those funds into retirement accounts. We heard about that earlier on. What that would do is it would put the funds in a place where they are supervised and will not be used for reinvestment in the fisheries.

And because the Capital Construction Fund program has been defined in terms of capital investment imperatives up to now, people have been pressured to either take an unqualified withdrawal at very great cost or to reinvest in fisheries. We want to at least change the regulations to the extent that that no longer occurs. We do not want to see people forced to either invest their CCFs or lose them. That is not a real big regulatory fix, I think.

Another thing that could be done with funds that are now on deposit in Capital Construction Funds is they could be defined such that those funds would be allowed to become a source of capital for buyback programs so that they serve to underwrite a bonding authority, for instance, and we could then exercise those funds as a capital instrument involved in underwriting buyback programs.

Now that would get pretty complicated but it is an idea that I think could have some merit as a decelerator on investment in the fisheries. There are a number of proposals we have heard to this effect that could help to not only mitigate but turn the impacts into something useful.

Mr. GILCHREST. Those are certainly interesting proposals. I am just wondering if we would have to go to the Ways and Means Committee for the retirement provisions for any changes in the CFF.

How about if we just change—would we have to go to Ways and Means if we changed it from Capital Construction Fund to Capital Correction Fund? Maybe.

Are there any other comments from the witnesses?

Gentlemen, thank you very much. You have been an extraordinary help this morning and this afternoon.

Just one last comment I want to make before we all leave here. Macy Bell, we all owe her a debt of gratitude for her fine work here on the Committee as the staff person. Macy is retiring to Utah. I think she will probably still be pretty active out there. Macy, we appreciate all your work and effort on the Committee. You have been a fine staff person and we wish you nothing but the best in the State of Utah. Thank you very much.

Mr. GILCHREST. The hearing is now adjourned.

[Whereupon, at 12:30 p.m., the Subcommittee was adjourned.]

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