

## **California Dungeness Crab Task Force (DCTF) Draft Options/Considerations for Exploring a Commercial Dungeness Crab Permit Buyout Program Worksheet for Executive Committee Review/Use to Share with DCTF**

*Drafted by the DCTF Administrative Team, April 1, 2020*

In October 2019, DCTF tasked the Executive Committee with developing ideas and options for full DCTF review on a number of priority issues as part of the [2019-2021 Work Plan](#). As a first step, the Executive Committee will explore potential options for a commercial Dungeness Crab permit buyout program.

[This draft document contains questions/considerations, real-world examples, and options to help inform the Executive Committee's discussions about this topic.](#)

**Additional options, examples, and considerations are welcomed by the Executive Committee and others.** Options will be discussed during an Executive Committee call in April 2020 and outcomes will be presented to the full DCTF for review and consideration and possible vote at an upcoming DCTF meeting.

### **Key Questions and Permit Buy-Out Program Options**

The following questions and associated options have been informed by real-world examples (e.g., the 2003 West Coast groundfish buyout program and the current Drift Gillnet transition program (SB1017, Allen, 2018)):

- What is the premise for considering reducing the number of permits in the fleet (e.g., reduce overcapacity, reduce latent capacity, reduce overfishing, etc.)?
- Should the buyout target specific vessel sizes, permit tiers, geographic areas, historical landings, include other fisheries/programs, etc.?
- What is the goal for the number of commercial Dungeness crab fishing permits in California?
  - Option: Reduce the fleet by 10% (from ~550 permits to 500 permits)
  - Option: Reduce the fleet by 20% (from ~550 permits to 440 permits)
  - Option: Reduce the fleet by 50% (from ~550 permits to 276 permits)
  - Option: A portion of permits by tier
  - Option: A portion of permits by area (e.g., Northern and Central Management Areas)
  - Other?<sup>1</sup>
- What funding sources could be used to support a California commercial Dungeness crab buyout program? Examples of funding sources used in other buyout programs:

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<sup>1</sup> The West Coast Groundfish buyout targeted one-third of the fleet, 91 vessels. The California Drift Gillnet buyout targeted the whole fleet, less than 20 vessels.

- Option: Federal loan through the National Marine Fisheries Service (NMFS) and paid back by those remaining in the fleet through a landings fee.<sup>2</sup>
- Option: Potential legislative pathway to identify legislatively appropriated funding from the State of California with potential for additional funding provided through nongovernmental organizations.<sup>3</sup>
- Other?
- How much money would be needed?
  - Option: \$30M-\$40M
  - Option: \$41M-\$50M<sup>4</sup>
  - Option: \$51M-\$60M
  - Others?<sup>5</sup>
- Who would distribute the program's funding?
  - Pacific States Marine Fisheries Commission (PSMFC)<sup>6</sup>
  - Other?

### **Additional Considerations**

- How much should each permit be purchased for? (e.g., fixed price, reverse auction, reservations prices, etc.)<sup>7</sup>
- Should both active and inactive permits be considered for the program?
- Commercial Dungeness crab permits are attached to the vessel. Is there a need to put other regulations in place to prevent a vessel from participating in a buyout and placing a new permit on the same vessel?
- Should there be requirements preventing fishermen who participate in the buyout from entering the fishery again? Or for a period of time?
- Should the buyout remove permits, vessels, or both?
- Are there potential challenges or financial concerns (e.g., impacts to local communities, etc.) that the commercial Dungeness crab fishery should consider before moving forward with a buyout program?

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<sup>2</sup> This option is reflective of the West Coast Groundfish buyout.

<sup>3</sup> This is reflective of the California Drift Gillnet buyout.

<sup>4</sup> The West Coast Groundfish buyout received \$46M in federal funding.

<sup>5</sup> The California Drift Gillnet buyout outlines funding requirements of \$1M from state funds and \$1M from non-state funds.

<sup>6</sup> This is reflective of the California Drift Gillnet buyout.

<sup>7</sup> Details about these options: Squires, Dale. (2010, Mar. 5) *Fisheries buybacks: a review and guidelines*. Publications, Agencies and Staff of the U.S. Department of Commerce: <https://digitalcommons.unl.edu/usdeptcommercepub/316>

## Permit Buyout Program Examples

### ***2003 West Coast Groundfish Buyout Program***

- In 2003, the West Coast groundfish trawl fishery was part of a federally funded buyout.
  - In 2000, the West Coast groundfish fishery was declared a federal economic disaster prompting the buyout program developed and implemented by NMFS three years later.
- NMFS financed a buyout of one-third of the fishing fleet to reduce fishing capacity of the CA/OR/WA trawl fleet.
  - The buyout program removed 91 vessels. Since many of these vessels had permits in multiple fisheries, the buyout purchased all commercial fishing permits associated with each vessel, which resulted in a total of 239 fishing permits from the groundfish trawl fishery, California Dungeness crab (~20), California Pink shrimp (~30), Oregon Dungeness crab, Oregon Pink shrimp, and Washington Pink shrimp.
  - The buyout was done through a reverse auction process. Potential sellers submitted a binding bid to NMFS. The bid included an amount that the seller would accept to retire his permits and vessel. The bids were scored by dividing the bid amount by the gross fishing revenue associated with all of the permits involved. Lower scoring bids received higher purchasing priority.
  - A vessel that was part of the buyout could no longer participate in any commercial or recreational fishery.
  - Fishermen who remained in the fishery were required to pay the federal government back through a 3.5% to 5% fee levied on their landings.
  - \$10M was appropriated from Congress to pay for the buyouts and the remaining \$36M was issued as a federal loan to the remaining vessels in the fisheries to repay over a 30-year term (via an up-to 5% fee on ex vessel revenue).
  - Because the vessels that were bought out had multiple permits in a variety of fisheries, NMFS allocated portions of the \$36M loan to the six subsector fisheries mentioned above.
- It took close to two years for NMFS to implement a repayment plan after the initial loan, which caused \$4M in interest to accrue on the balance. Since then, compounded interest has increased the total cost to fishermen to an estimated \$9M to \$13M.
  - Aside from groundfish, all other portions of the loan have been paid back.
  - Recently, the groundfish fleet was able to refinance the remaining loan and get \$10M of inappropriately accrued interest to be forgiven as part of the \$1.4 trillion federal spending bill passed by congress in December

2019. This recent buyout relief was introduced by Senator Jeff Merkley (D-OR) and was endorsed by a bipartisan group of West Coast legislators.

### ***Current Drift Gillnet Buyout Program***

- In 2018, the California State Legislature passed SB1017 enacting a state- and non-state funded “transition program” of the Swordfish/thresher shark drift gillnet fishery off California.
  - The bill’s intent was to prevent the entanglement of non-targeted species caught in drift gillnets including sea turtles, dolphins, whales, and other marine wildlife.
- Funded through state and non-state funds, the use of drift gillnets will be phased out over a four-year period upon receipt of \$1M from state funds and \$1M from non-state funds.
  - Drift gillnet fishermen will be compensated \$10,000 for their state drift gillnet permit and active fishermen will be compensated an additional \$100,000 for surrendering their nets to a state-approved entity for recycling and disposal.
- Currently, there are less than 20 active boats in the fleet. The goal is to reduce the number of permits to zero.
- California Department of Fish and Wildlife (CDFW) must develop a program to voluntarily transition drift gillnet permit holders out of the fishery by March 31, 2020. A permittee who chooses to participate in the program must indicate their intention to CDFW on or before January 1, 2020. Drift gillnet permits would be surrendered or revoked under the program following CDFW’s submission of the program plan and notice of receipt of funds from state and non-state sources to the Legislature (see paragraph (2) of subdivision (b) of Fish and Game Code Section 8583).

### ***New England Groundfish Reverse Auction Example***

- Between 1995-1998, a reverse auction was used to execute a buyout for the New England groundfish fishery.
- As dictated by the buyout requirements, each vessel owner prepared a bid/price that had to be met to render the vessel unfishable and surrender all federal fishing permits.
- Vessels were selected for buyout from lowest to highest based on the ratio of the bid as compared to the ground vessel’s groundfish revenue. Once available funding was used, the buyout ended.
- As part of the buyout deal, vessels had to be scrapped or used for something besides fishing and the vessel owner was responsible for all associated transition costs, which was reflected in the reverse auction bid amount.

- Vessel owners could still re-enter the fishery or other fisheries if they were able to purchase a vessel and the necessary permits.

## References

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