

GROUPEL BUYBACK PROGRAM UPDATE

October 21, 2005



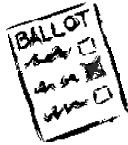
Florida Fish and Wildlife Conservation Commission
Division of Marine Fisheries Management

This is a review and discussion of the industry-sponsored proposal to reduce commercial fishing effort in the Gulf Of Mexico red grouper fishery. At the Commission's direction, this paper evaluates several issues regarding the grouper buyback:

- the effect of grouper buyback, including an estimate of the post-buyback fleet capacity compared to the existing grouper quotas;
- effect of buyout on dual permitted charter vessels;
- fairness of the buyback;
- potential for IFQ's and how long it will take to implement;
- the potential for a "grouper stamp" on a Florida recreational fishing license to be used to buyback the Gulf's longline grouper fleet;
- reallocation of commercial quota to recreational fishermen.

BACKGROUND

- SOFA has developed a voluntary buyback plan
- Plan must be approved by industry vote - 60%
- Plan must be approved by Congress
- Congress free to examine other plans
- First buyback vote was completed Oct 11, 2005



As discussed at the October 1, 2005, Commission meeting, the Southern Offshore Fishermen's Association (SOFA) has developed a buyback plan and has submitted it to licensed reef fish fishermen in the Gulf of Mexico for a vote. The plan was industry generated in an effort to avoid commercial quota closures and stabilize the fishery. There has been minimal federal and no state involvement in the process. The plan establishes qualifying criteria for vertical line and longline endorsements and criteria for a voluntary buyback. The plan must be approved by a weighted vote (weighted by landings history) of 60% of the license holders in order to be submitted to Congress as a potential buyback plan. If the vote fails to achieve 60% approval, then SOFA will conduct a second vote of longliners only whereby only longline vessels would be eligible for the buyback and they would be given a specific quota to fish on. In either event, the plan must still be approved by the Congress before it can take effect. Congress is free to examine any other buyback plans that may surface and they are also free to reject all plans and withdraw the 2004 appropriation for the buyback.

The first buyback vote was completed on October 11, 2005, and the unweighted vote was 38% for and 62% against the buyback. NMFS is adding landings to the votes to determine the weighted vote. Results are not available at this writing.

EFFECT OF THE BUYBACK ON FLEET CAPACITY

- Estimate remaining capacity after buyback
- Combined grouper quotas = 10 million pounds
- Fleet would like to fish year round
- Inshore grouper fishery closed Nov 15, 2004
- Inshore grouper fishery closed Oct 10, 2005
- Quota closures driving a derby
- Industry will have to remove at least 25% to expect year-round fishery

The combined shallow water and deep water grouper quotas amount to about 10 million pounds and the capacity of the remaining fleet will need to match that in order to expect a year-round fishery and a year-round supply of grouper to the markets. Last year the inshore grouper fishery closed on November 15 and this year it closed on October 10. The quota closures are probably driving a derby and it is typical for the derby to get worse as time goes on. Staff estimates that the industry will need to remove at least 25% of its present capacity in order to expect a year-round or nearly year round fishery.

EFFECT OF THE BUYBACK ON DUAL PERMITTED CHARTER VESSELS



There is some concern about the effect of the buyback on a vessel which was dually licensed as a reef fish charter vessel and as a commercial reef fish vessel. Any licensed charter vessel which had at least 4,000 pounds of grouper landings in a qualifying year and which did not volunteer for a buyback would be able to keep its dual licensing.

However, the proposal will potentially have two effects on other dual permitted charter vessels:

- Vessels with more than 500 pounds but less than 4,000 pounds of grouper landings in one of the qualifying years will receive a bycatch permit under the terms of the SOFA proposal and thus will only be able to sell a 100-pound grouper trip limit;
- A vessel that agrees to the voluntary buyout will lose its reef fish license, and all U.S. fishing privileges will be permanently revoked. We presume this to mean charter vessel privileges as well as commercial privileges.

FAIRNESS OF THE BUYBACK PROGRAM

- Fairness is subjective
- Grouper industry is overcapitalized
- Derby fishery
- GMFMC trip limits apply
- Industry and government need to work toward a plan
- SOFA plan sheds excess capacity
- Small players will be forced out
- If the right amount of effort is removed, a year round fishery is possible



Consideration of what is fair involves applying some valuation criteria; it is subjective and will vary from person to person. Staff reported at the September meeting that IFQ's were a better approach and one of the reasons is that it can assuage many of the arguments about fairness.

The last two years of quota closures have shown that the grouper industry is overcapitalized for the amount of quota that is available. A derby has developed and closures will probably occur earlier and earlier absent management changes. The Gulf Council and NMFS have approved trip limits in the fishery, but that is a method of forced inefficiency. It is a stopgap measure that is undesirable in managing a commercial enterprise. And the trip limits may not work or may not work well enough to keep the season open and keep markets/consumers supplied with grouper year-round. Trip limits affect the largest harvesters, whereas the buyback proposal qualifiers affect the smallest operations. The perception of fairness will vary between the two.

Industry and government need to be working toward a plan that will benefit all fishermen, dealers, restaurants, and consumers and will allow their collective best interest. The buyback proposed by SOFA attempts to do that by shedding some of the excess capacity in the fishery. Small scale or part-time fishers will be forced out by the minimum landings criteria and the larger operations will have the option of staying in or selling their fishing privileges. If the buyback removes just the right amount of effort, then the public may be able to anticipate a year round supply of grouper for a few years, but harvesters' efficiency will inevitably increase and will eventually lead to another quota closure and a shortened season.

PROS AND CONS

PRO

Should lengthen season to the benefit of fishers and consumers by providing fresh grouper for longer period, maybe year round.



CON

Not known how much it will lengthen season; could be temporary pending increased efficiency; may be some loss in product quality when the smallest fishermen are forced out since many are day boats; fishers/markets outside of central west coast of Florida are likely to be affected more than boats in vicinity of Tampa Bay.

Here is what staff see as pros and cons about the SOFA proposal.

PROS AND CONS

PRO

Buyback is paid for by industry and is voluntary.



CON

Taxpayers must loan the capital for the buyback; buyback forces out the smallest players with little input and no compensation; buyback has no public forum where interested parties can comment and reshape the plan.

Here is what staff see as pros and cons about the SOFA proposal.

PROS AND CONS

PRO

Buyback document estimates that derby fishing will go away for 5 - 10 years; an IFQ system should replace the present license limitation system.

CON

An IFQ could be implemented in 2-3 years; Post-buyback fishers will be in a derby in order to guarantee shares for the IFQ.



Here is what staff see as pros and cons about the SOFA proposal.

PROS AND CONS

PRO

If first buyback vote fails, then a longline vote only occurs; if it passes then longline fishery gets its own quota.

CON

Commission is on record as opposing longlining inside 50 fathoms; appears vertical line boats have to pay for buyback even though they receive no benefit.



Here is what staff see as pros and cons about the SOFA proposal.

PROS AND CONS

PRO

Vessels allowed to upgrade in size/HP one time within 20% specified limits.



CON

Upgrades will accentuate the derby; upgrades may amount to more effort increase than was gained from excluding the small players in the initial qualifying criteria.

Here is what staff see as pros and cons about the SOFA proposal.

POTENTIAL FOR IFQs?

- Staff prefers IFQ to buy back program
- GMFMC has voted to establish grouper IFQs
- Red snapper IFQ can serve as a model
- Grouper IFQ has several complications:
 - Deep water vs. shallow water grouper
 - Red grouper quota vs. all grouper quota
 - Gag grouper quota
- GMFMC grouper IFQ could be implemented between 2008 and 2009

Staff is on record as preferring an IFQ over a buyout because we believe it is fairer, controls effort with more certainty, and optimizes public benefits. The downside of an IFQ is that it will take longer to set up, and requires a more complicated enforcement and monitoring system.

The Gulf Council has voted to manage the grouper fishery with IFQ's and at their November 2005 meeting the Council will select an *ad hoc* Advisory Panel to make recommendations for implementing a program. A red snapper IFQ program should be approved at the same November meeting of the Council and finalized at the January meeting after the required referendum of endorsement holders.

While the red snapper IFQ can serve as a model for preparation of a grouper IFQ, a grouper IFQ has several unique complications. Grouper are managed with several subunits: 1) deepwater grouper vs. shallow water grouper; 2) within the shallow water grouper complex: red grouper quota and all grouper quota; and 3) the possibility that a gag grouper quota may emerge at some time in the future. Closure of the shallow water complex based on red grouper or all shallow water grouper harvest will require some discussion and thought as to how to structure the annual coupons.

Discussions with Council staff lead us to conclude that a reasonable date for implementing a grouper IFQ is sometime between January 1, 2008 and January 1, 2009. That assumes that no other obstacles emerge such as a NMFS declaration of overfishing on another species, a situation which would require the Council to shift its priorities.



GROUPEL STAMP



- Recreational grouper stamp proposal
- Fees used to buy out the grouper longline fishery
- Average of 321,000 grouper anglers during 2000-2004 in Florida.
- 14,000 anglers fished from charter or headboats
- Therefore, approximately 300,000 anglers would need to purchase grouper stamp

A proposal was made by a recreational fishing group at the September 2005 Commission meeting that Florida implement a \$2 or \$3 "grouper" stamp to raise dedicated funds to buyout the longline fishery. There is at least one complication here, that being that the longline fishery is federally permitted and operates exclusively in the federal zone, whereas the funds that would be generated from a stamp would accumulate in a state trust fund. It would probably take some mutually agreed upon modifications to state and federal law to make this work.

That problem aside, the scientists at the Florida Fish and Wildlife Research Institute have used the MRFSS database to estimate the number of grouper anglers in Florida. Their best estimate is that there was an average of 321,000 grouper anglers during 2000–2004 or which 14,000 fished on charter/headboats. Thus slightly more than 300,000 anglers would need to purchase a stamp to harvest grouper on a statewide basis. Recreational saltwater license sales averaged 920,000 units during 1999-2000 to 2002-2003, so about one-third of the licensees are also grouper harvesters. By comparison, an average of 191,000 anglers purchased snook stamps during 1999–2003 (2004 data is not available).

We don't know the capital value of the longline fleet, but the buyback proposal estimates that the minimum landings requirement prior to July 12, 2000 would result in a fleet of 82 longline endorsees which harvests about 3.4 million pounds of grouper per year. The proposal established a maximum of \$6.00 per pound for the buyback. At that level the fleet would be valued at \$20.4 million. At \$5.00 per pound the fleet would be valued at \$17 million.

