

# Bristol Bay Permits

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## ***Three Scenarios for Program Development and Implementation***

Update Report

to the

Bristol Bay Economic Development Corporation

RedPoint Associates  
Alaska Growth Capital  
August 2007

SUBMITTED BY MARILYN WILSON

Public Comment #

120

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# **Bristol Bay Permits**

## **Program Development and Implementation August 2007**

### **Introduction**

This interim report is the third document for the Bristol Bay permit program. The first report, April 2007, presented data analyzing the loss of locally held salmon permits and detailed how and how many permits were leaving resident control.

The second report was created in May, 2007. It summarized the data from the first report into 9 key findings. This report also suggested possible program options addressing the facts of the situation.

This, the third report refines the several concepts developed in the second report into six broad programs, recommends an organizational structure for the programs and identifies numerous specific activities within each of the six programs. It further adjusts each program to fit with 3 scenarios; restoring 60 permits per year, 30 permits per year and 10 permits per year. Finally, a draft budget was developed quantifying the costs associated with each program under the three scenarios.

### **Goal for Locally Held Permits**

The Committee defined the program's goal as returning local ownership of Bristol Bay transferable driftnet and setnet permits to 1975 levels. CFEC records show those permit levels as 557 setnet and 713 driftnet permits or a total of 1270 permits. At the end of 2005, locals held 735 permits.

	Setnet Permits		Driftnet Permits		Total Permits	
	<u>BB-ARL</u>	<u>Total Permits</u>	<u>BB-ARL</u>	<u>Total Permits</u>	<u>BB-ARL</u>	<u>Total Permits</u>
<b>Original Issuance</b>						
Transferable Permits	557	883	713	1875	1270	2758
<b>2005</b>						
Transferable Permits	<u>327</u>	920	<u>408</u>	1859	<u>735</u>	2779
<b>Need to Restore</b>	<b>230</b>		<b>305</b>		<b>535</b>	

Source: CFEC with RedPoint analysis

This goal requires that programs be developed to return 230 setnet and 305 driftnet permits for a total of 535 restored permits.

## Rate of Change Scenarios

Reaching the goal of restoring permits to the 1975 level can be done rapidly or slowly. The Committee requested developing scenarios for restoring 10, 30 and 60 permits per year. Unstated, but assumed, is that after the goal is reached that some aspects of the program will remain in place to maintain 1975 levels of local ownership.

<u>Permits Restored per Year</u>	<u>current loss rate</u>	<u>net change</u>	<u>Permits to Restore</u>	<u>Years to reach goal</u>
10	17	-7	535	na
30	17	13	535	41.2
60	17	43	535	12.4

Currently, about 17 permits per year leave local control. The most aggressive scenario calls for returning 60 permits per year to local residents - a net increase of 43 permits per year. At this rate, reaching the goal of restoring 535 permits to local control will take about 12.4 years.

The mid-range scenario of returning 30 permits per year creates a net increase of 13 permits per year. At that rate it will take a bit over 41 years to reach the goal of increasing local permit holdings by 535 permits.



## **Clearinghouse - Overview**

Permit loss occurs for varied and complex reasons. Each permit lost happens for a set of reasons – any one of which is fairly simple but unique in their combination. Reversing the outflow of permits will require a combination of simple but integrated tools that address the particular mix of issues in an individual situation.

Rarely will a single action fully address a given situation. And no number of independent solutions is likely to work either. Few of the tools are new ideas. What is completely new is the notion of coordinating all these programs under a single authority and with the single goal of restoring and retaining permits in local control.

We propose establishing a comprehensive set of interconnected programs under a single authority – a Bristol Bay Permit Clearinghouse (BBPC). The Clearinghouse would consist of several programs, each responding to an area of needs identified in prior phases of this Bristol Bay Permit Project.

This set of programs will help attract local residents to the fishery, help them qualify and keep them successful throughout their career. Clearinghouse programs will accomplish this through education, training, financial programs and by instilling pride in the profession of commercial fishing. When they retire from fishing, the program will help them transfer their permits and skills to other residents wanting to enter the fishery.

Organizationally, the BBPC would be a stand-alone entity (LLC or similar) of BBEDC. It would have its own management committee that reports to the BBEDC Board. Ultimately, each program element will have its own director and staff.

The overriding goal of the program is to restore the number of locally held permits to 1975 levels. The BBEDC Board and Clearinghouse's management committee will set additional goals and evaluate performance toward those objectives and recommend appropriate revisions to the programs.

## **Clearinghouse Programs – Restoring 60 Permits per year**

The Bristol Bay Permit Clearinghouse coordinates all aspects of retaining and restoring earlier levels of limited entry permits in the hands of local residents. BBPC receives policy direction from BBEDC. Its programs are funded by BBEDC, other NGOs and by grants from the private and public sector.

The overall goal of the BBPC is to restore locally held permits to levels of original issuance of transferable salmon permits; 713 driftnet and 557 setnet permits. The Clearinghouse will meet this goal through a system of five integrated programs, each a major department of the Clearinghouse:

1. Clearinghouse Administration
2. Outreach and Communication
3. Research and Data Services
4. Brokerage
5. Financial Services
6. Education and Training

*Each of the 6 numbered sections below describes specific activities required to meet the goal of restoring 60 permits per year to local control. In following sections, these programs are then reduced to meet the goals of restoring 30 permits per year and 10 permits per year.*

### **1. Clearinghouse Administration**

#### **Goals and Objectives**

This, basically, is the office of the Clearinghouse's Executive Director (ED). That function and others that cover the overall program are placed in this office. This office directs and coordinates the activities of other BBPC programs.

#### **Activities**

Its executive director coordinates and synchronizes all clearinghouse activities to fully realize the benefits of having all programs in a single structure. The position is responsible for the administration and all functional activities of the Clearinghouse.

The program's executive director is a seasoned manager with successful experience in the areas of politics, policy, business and financial management. The ED supervises all program elements, seeks supplemental funding for the BBPC and otherwise assures program effectiveness.

## **2. Outreach and Communication**

### **Goals and Objectives**

The primary goal of the Outreach and Communication program of the BBPC is to elevate awareness of the importance of keeping approximately 50% of Bristol Bay salmon limited entry permits in the hands of area residents.

A secondary outreach goal will be to build an appreciation among policy makers for the social and economic benefits of maintaining strong local participation in the fishery.

Information about the purposes and programs of the BBPC will be directed to residents and policy makers through coordinated communications, trained personnel and comprehensive information programs reaching schools, tribal councils, regional NGOs and individuals. The outreach program will field questions and issues pertaining to building and protecting local control of limited entry permits.

The Director of this division should have considerable experience and skill in communicating with rural Alaskan residents, be credible in the fishing community and have a passion for the program's purposes. In the second year of operations, this division will hire a second person.

### **Activities**

Too many permits leave the region because local permit owners are not aware of the full range of transfer options and financial services available. This program, supported by Research and Data services addresses this need.

### **Dispersing Information**

- Develop a mix of methods for communicating the value of keeping permits in the hands of residents. Suitable methods would include; well maintained website, periodic mailings, attractive printed materials, earned media, advertisements, community peer groups, role models "heroes" and town meetings.
- Create a special program for existing permit holders with specific information about tools available to residents for buying and selling permits.
- Design materials and contact programs targeting on potential sellers – permit holders moving out of the Bay, aging permit holders and permit holders in financially stressful situations.
- Create information and programs to contact potential permit buyers such as – resident crew members, members of successful fishing families, former fishermen looking to re-enter the fishery, fishermen wishing to shift from drift to setnet operations and similar.
- Promote awareness of all the BBPC's programs with specific packages describing the functions of the Clearinghouse's five programs.

#### Fielding questions

- Create a hotline for handling both general questions and efficiently getting information needed in a specific situation.
- Establish a network of paid community liaisons – people living in a community that can help identify potential permit buyers and sellers, answer general questions and introduce residents needing additional help to a BBPC staff person to help with particular needs. The core of the liaison program is the existing BBEDC program in 17 watershed communities.

#### Policy development

- Senior staff will regularly relay BBPC activities, successes and impediments to policy makers in federal, state and local government and with the appropriate staff with BBNC, BBNA etc. Similar updates will also be available to private foundations and public granting agencies.

### **3. Research and Data Services**

#### **Goals and Objectives**

This program segment provides factual information needed by other BBPC activities, particularly Outreach & Communication and senior management.

This BBPC division monitors the number of locally held permits, measures progress toward goals, generates data on transfers, maintains a list of prospective buyers, list of permit holders migrating out of the region, maintains data on all participants in education and training programs, maintains data on residents in financial assistance programs and generally supplies information needed by staff to meet the organization's goals.

This section will contract to develop and maintain a specialized database and query system and input existing data from ADF&G, CFEC and other sources. This system will supply BBPC with information needed to conduct its activities and monitor progress toward permit restoration goals.

This division will also assess impacts of new fishery management programs on local permit holders.

#### **Activities**

BBPC programs and clients will need considerable information. The source of the information is the responsibility of this division. The Outreach Division receives it from R&D and, through various means, gets it into the hands of local residents.

#### **Registry of Qualified Buyers**

- Returning permits to the region will require having a list (registry) of buyers ready to respond as non-local permits come on the market. Names on the list will come from other programs (outreach, training, education etc). One objective is to make it fast and easy to sell a permit to Bay residents.
- A related registry will be developed of residents desiring commercial fishing education and training programs.

### Research

- Research and answer questions from staff and clients
- Study the likely impacts of various fishery management proposals on local participation in the fishery. An initial topic will be to measure the effect of stacking on local permit holders.

### Permit Tracking

- This ongoing activity will monitor each resident-owned permit. The objective is to identify permits at risk of leaving the region. Each local permit holder will be contacted annually to assess early any potential for the permit leaving local control. Permit holders considering transfer of their permit for any reason will be coached on how they might sell in-region or might address the underlying reason for needing to sell. Permit holders experiencing financial stress or retirement will receive a blend of information and programs addressing their particular situation.
- Permit holders considering moving out of the region, or who have recently moved, will also be identified and regularly contacted so, when the time comes to sell, they will be inclined to sell to in-region buyers.
- The database and resulting files will require continuous updating.

### Stacking Study

No state entity currently tracks the trends associated with various forms of permit stacking. As a result, no one knows how many permits are being stacked or the economic effects of stacking on local fishermen.

This project encourages the state to institute systems to track the number of 1) dual stacking permits (two permits controlled by a single person) and 2) independent permit stacking (two permit holders sharing the cost of a single vessel). The tracking system should be designed to tie stacking data to other parts of the state's various limited entry databases.

Specifically the activity will:

- Clearly define and document the need. Communicate that need to the state and offer to assist them in developing the needed tracking system.
- Institute an in-house system to monitor the resulting data and use that data in other Clearinghouse programs.
- Develop a means for measuring the impacts of both permit stacking strategies on pricing of permits and fishing incomes.

#### Monitor program performance

- What is measured is done. This activity will identify key indicators and track their trends –vs – goals for BBPC's several programs. Based on its evaluations and research, the analysis will suggest ways of increasing BBPC effectiveness.

### **4. Brokerage**

#### **Goals and Objectives**

The overall Goal of the Brokerage Program is to place Bristol Bay residents on an equal or superior footing with outside permit buyers to tip the balance of the current trend of loss of permits to the region. Brokers are experts in facilitating transfers; making the actual transactions fit particular buyers and sellers. This is different from the outreach function which is responsible for alerting residents to the availability and content of all BBPC programs.

One of the objectives of the overall program is to make it "easy" for existing brokers to locate, market and sell permits to Bay residents. This will be supplemented by broker incentives that will encourage brokers to market to Bay residents, something they do not currently do.

Another objective is to elevate the profile of the Local Broker Office to be prominent in the minds of all permit holders when they come to a decision to sell their permit. It should become the first option considered by any seller or buyer.

This program incorporates existing BBEDC brokerage program and considerably expands its overall mission. The budget item for the

director of this program is not a new cost. A second position will be established in year two to assist in reaching program goals.

## **Activities**

### Broker Bonus Program

- This program will establish an incentive for permit brokers to make Bay residents a priority group of buyers. Although declining, permit brokers still handle a number of permit transactions. Most brokers do not live in the Bay and have little contact with Bay residents. Under this program brokers will receive a 50% bonus for sales made to local residents. At today's driftnet permit prices, that bonus would be about \$800 per sale, a 50% increase of their current transaction revenues.

### Proactive Local Broker

- The brokerage envisioned here is an advocate for locally held permits and able to address a wider range of issues. The local broker representative is fully informed on CFEC law, regulations and policies. He is also generally familiar with other BBPC programs and can enlist fellow staff as needed to respond to the needs of local residents. The broker's services are free to locals thus supplying a strong incentive to utilize the local brokerage services.
- The broker will establish and maintain relations with non-local brokers, and possibly with non-local permit holders. The local broker will seek to get (perhaps by buying short term exclusives) first notice of BB permits being offered – before they hit the general market.
- The local broker will match up permits for sale with the BBPC registry of qualified buyers.
- The position of "circuit rider" in the Outreach program will be a key element in helping inform residents about the Brokerage.

### Right of First Refusal

- The right of first refusal requires that a permit owner who received BBPC services (education, training financing etc)



must allow any local resident to match a legitimate purchase offer from any outside buyer. If no Bay resident buys the permit at the offered price the permit holder is free to sell the permit to a non-resident at that same price.

The Right of First Refusal clause could be part of any substantial BBPC service. But it is most likely to be associated with BBPC financing programs, including new finance programs through CFAB. This obligation could also apply to gifts and self financed transfers.

#### Gifting Bonus/Annuity Program

- Encourage gifting to BB-ARLs – provide a bonus for successful gift transfers.
- Provide a means for local permit sellers/gifters to benefit from a long term annuity from the new permit recipient – possibly enhanced by a matching program from external financial source.

#### Setnet Permits

Restoring setnet and drift permits will generally require the same set of programs – but with different emphasis given to each program component. Restoring setnet permits, for example, may require more weight be placed on outreach, training and quite possibly, loans and other forms of financial assistance.

Local setnet permit sellers employ brokers to facilitate just 30% of transfers. Local driftnet sales involve brokers over 70% of the time. It follows that broker programs described above cannot be expected to be as large a factor in restoring 230 setnet permits to local control as it will be for driftnet operations. The setnet goal will be addressed by relying less on the local broker program and greater emphasis on other strategies.

Lower setnet permit prices and capital/operating costs do not equate to a reduced role for loans as a means for restoring setnet permits. Although total amount of money is lower for setnet packages, residents wishing to enter either fishery are likely to need some amount of loan assistance and financial counseling.

Currently permit holders sell 70% of their permits without a broker. It is possible that offering a free brokerage service by the local broker program might compel non-resident sellers to list their permits with that service.

## **5. Financial Services**

### **Goals and Objectives**

The BBEDC Loan program aims to place BB residents on a competitive financial basis with permit seekers from the outside, based on access to capital and ability to access credit facilities. For the purposes of this proposal, we will assume that under the 10, 30, and 60 permit transfers per year, 6, 20, and 40 permit transfers directly tied to the financing program.

### **Activities**

- Finance Officer will be hired year one
- All residents of the BB region will be eligible to receive loans from BBEDC to purchase a set or drift net permit.
- BBEDC will access the United States Department of Agriculture Rural Development Intermediary Re-lender Program to receive a \$750,000 initially at 1% interest, with the first three years interest only payments, and the remaining balance amortized over 27 years.
- Loans will be provided through the Alaska Commercial Fishing and Agriculture Bank (CFAB), at a rate of participation from CFAB at 25% and BBEDC at 75%. The CFAB interest rate will be at 7.5% and the BBEDC interest rate will be 3%.
- CFAB is utilized because no other organization in Alaska can collateralize commercial fishing permits, other than the Alaska Division of Investments.
- Financing will be available for 15 years at a rate of 3% with a minimum of 5% down on the transaction.
- BBEDC will have the 'first right of refusal' when the permit becomes for sale by the borrower, allowing the Neqsuq office to arrange for the purchase of the permit by a region resident.
- The borrower will be eligible for the *Sweat Equity Program*, which will provide a principal pay-down to the borrower of 5% of

the balance at the end of year three, 10% at the end of year seven, and 15% at the end of year ten. To earn each of the pay-downs, the borrower must meet certain metrics, including remaining a resident of the region for the period of the loan, actively fish each year of ownership of the permit and meet certain fishing metrics during the term of the loan, and participate on a quarterly and annual basis in business coaching sessions to ensure adequate support for the borrower.

- BBEDC will provide business coaching resources, outreach staff, and credit counseling to borrower and potential borrowers.

## **6. Education and Training**

### **Goals and Objectives**

Education and training are essential activities for the overall program but they are programs with a long term payout. The benefits will increasingly become apparent starting in 3-5 years. The education and training programs will build a long term sustainable pool of qualified resident fishermen that can successfully compete in the salmon fisheries.

The goals of this program element are to enhance the skills needed to become a successful Bristol Bay fisherman. Benefits of the program will be to increase average resident fishing income (now 30% less than non-resident revenues) and to raise the number of permits held by local residents.

A major goal of the education/training program is to elevate the prestige of commercial fishing as a respected profession.

### **Activities**

#### **Building the Education and Training Program**

We propose creating a specific working group facilitated by staff skilled in education and training program development. From the education side local Bristol Bay school systems, University of Alaska, SeaGrant and Alaska school systems with marine

technology programs (Ketchikan, Kodiak, Sitka and Cordova) would all supply needed expertise. From the training side of experience and knowledge of state/federal programs the Alaska department of Labor, Alaska Jobs Center and Alaska Vocational Technical Center would be recruited. Local drift and setnet fishermen that understand the skills and knowledge required for competition and success in the Bay salmon fishery would round out the needed expertise. Lastly the director (or designee) of the Salmon Permit Clearinghouse would chair the group to ensure coordination and synergy with all Clearinghouse programs.

#### Education Components:

Focus: develop entrepreneurial talent and knowledge to run a fishing operation as a successful small business

- Encourage an understanding of the "business of fishing" as a long term career choice. Develop business and financial skills needed for success in today's fishing industry. Many of these skills can start in the high school curriculum as students are preparing for careers as well as the Community College and Outreach programs.
- Start early in the school system to build respect and appreciation for professional fishermen.
- Create K-12 lesson plans that develop and refine abilities needed by contemporary fishermen.
- Work with the UA to develop college classroom curriculum for new and existing fishermen to teach business management, gear handling strategies, quality handling practices and boat maintenance skills.

The education programs developed under this initiative would be operated by the appropriate educational institutions – local school systems, University of Alaska and SeaGrant. There would be a needed role for the Clearinghouse to maintain an ongoing role of monitoring performance, obtaining needed funding for programs, coordinating growth and change in the programs over time as needs to support new and existing fishermen change.

#### Training Components:

Focus: Build skills and experiences needed to become successful fishermen

Skills learned in the classroom can provide a background and knowledge, but hands on activity on the dock, deck, engine room and beach is essential to building the next generation of successful resident fishermen. Training programs need to target all aspects of the wide variety of skills and knowledge fishermen must have – nets and gear, seamanship, operation and maintenance of equipment, electronics and vessels.

There are several groups that can be enlisted in ongoing roles to build and operate successful training Bristol Bay Salmon fishermen training programs:

- Local fishermen can fulfill the roles of by “heroes” as mentors in schools and as trainers on the boat.
- SeaGrant has the competence and experience in many Alaska fisheries with outreach, material development and training.
- The Alaska Department of Labor is the central clearinghouse for state and federal training and trade assistance funds and has experience with many formal training programs and facilities in the State.

There are several specific options we have identified to utilized in the overall training program:

- Pay fishing interns for a pre-season work programs on nets and maintenance of vessels to gain skills before becoming a deckhand.
- Provide a crew-share match to skipper hiring inexperienced local trainee crew.
- Existing law allows the Entry Commission to issue ‘education permits’. This would allow a salmon training vessel of setnet training site where students and trainees could obtain their initial exposure to the salmon fishery and gain initial fishing skills. This has been successfully utilized in other fishery training programs.

Due to the uniqueness of the training programs the Clearinghouse would have to have a much more robust role in developing and maintaining these programs. Existing institutions such as SeaGrant and the schools systems can possibly operate some of these program components under contract.

### Overall Integration of Education and Training

There are several other program components that can be integrated to enhance overall success of the education and training programs:

- Participants that successfully complete training and or education programs could be rewarded with qualification 'points' for financial support programs for permits and vessels. This would create incentives to participate and succeed in the education and training programs.
- Other areas of the state and other fisheries have maintained a successful fishing fleet through access to other fisheries. A fishing way of life has thus been created. Current and prospective Bay salmon fishermen should be provided the opportunity and access to CDQ high seas fishing training, employment and careers to expand and build the Bay's own unique fishing lifestyle.
- Another incentive for Bay residents that successfully complete education and training programs could be general scholarships.

One of the most critical overall integration for the Clearinghouse is maintaining a real life connection between the students and trainees coming up through these programs, actual participation in the fishery as deckhands and finally entry into the fishery as permit holders. This is one very strong reason for the database to track and integrate all of these programs and individuals.

### **Adjustments to restore 30 permits per year**

Reducing the above program activities to restore 30 permits per year requires many of the same activities but at lower levels of effort. So although the goal halved the budget is not cut by 50% because this lesser goal requires many of the same basic framework as the 60 permit goal.

The 30 permit goal program adjusts the 60 permit goal program as follows:

### **Clearinghouse Administration**

- Year one budget is unchanged from 60 permit goal.
- Five year budget also unaffected

### **Outreach and Communications**

- No Outreach assistant or "circuit rider" or program representative regularly visiting watershed communities.
- Eliminate the Peer Group program
- Reduced travel to watershed communities
- Community liaison program reduced to half

### **Research and Data Services**

- Year one budget is unaffected.
- Reduced outlay for computers

### **Brokerage**

- Eliminate assistant position in years 2-5. The whole program will be managed by one person.
- Eliminates programs for elders to encourage gifting and transfer of permits to locals.
- Travel substantially reduced.

### **Financial Services**

- No vessel and gear financing activities

### **Education and Training**

- Reduced personnel compensation
- Cut travel, supplies
- Reduced curriculum development and eliminated student scholarship funds.
- Business training reduced
- Reduced crewman subsidy
- Eliminated the K-8 program

## **Adjustments to restore 10 permits per year**

A program to restore just 10 permits per year can be done quite simply – though it still requires some overall coordination and outreach. The remaining program will focus on financing and brokerage activities. Such a program will virtually eliminate long term programs of education, training, outreach and research/data.

Reductions from the 30 goal program are summarized below:

### **Clearinghouse Administration**

- Eliminated – no Executive Director in this scenario

### **Outreach and Communications**

- Reduced compensation for Outreach director due to fewer program responsibilities.
- No Community Liaison program
- Reduced travel
- No mailings, ads, PR effort

### **Research and Data Services**

- Fewer computers required (less staff).
- Database of permit holders eliminated

### **Brokerage**

- Broker bonus is reduced

### **Financial Services**

- No Finance Officer

### **Education and Training**

- Program director position and travel eliminated
- All activities zeroed out – except for \$10,000/yr for minimal level of support for business training for loan recipients.



## Budget Summary – 3 Scenarios over 5 years

The summary below broadly describes the effect of the 3 different scenarios on the program's 5 year budget.

	<u>60 Scenario</u>	<u>30 Scenario</u>	<u>10 Scenario</u>
Clearinghouse Admin.	790,846	790,846	0
Outreach and Communications	961,825	548,425	425,340
Research and Data Services	105,050	91,850	21,450
Brokerage	1,428,110	696,810	639,610
Financial Services	985,097	675,291	782,489
Education and Training	1,362,425	790,265	55,000
<b>Total Budget</b>	<b>5,633,354</b>	<b>3,593,487</b>	<b>1,923,889</b>
<b>Revenue</b>	<b>1,517,822</b>	<b>1,010,322</b>	<b>477,822</b>
<b>Total Region Funding Needed</b>	<b>4,115,532</b>	<b>2,583,165</b>	<b>1,446,067</b>
<b>Permits restored after 5 years</b>	<b>300</b>	<b>150</b>	<b>50</b>
<b>Cost per permit</b>	<b>\$13,718</b>	<b>\$17,221</b>	<b>\$28,921</b>

The revenue estimates are extremely rough. It is very difficult to estimate outside grants until specific programs are defined and approved.

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# **Bristol Bay Salmon Permits**

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## *Facts, Findings and Options*

Update Report

for

The Bristol Bay Economic Development Corporation

RedPoint Associates  
Bob Waldrop and Terry Gardiner  
May 25, 2007

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## **Introduction – research summary**

- Maintaining a healthy level of permits in the hands of local residents is in the best interest of the full Bristol Bay fishing industry. Doing so may lessen or avoid social, economic and political battles.
- A declining number of local permit holders creates a negative cycle of reduced political influence, smaller voice in resource development debates and less public support.
- A significant number of permits change hands every year. Some enter local ownership but even more leave. In the past 30 years, 600 more permits left the region than flowed into it. In an average year, 21 permits are lost to local control; 11 driftnet and 10 setnet.
- Permits ebb and flow from the region in a variety of ways. In the past 30 years, transfers (sales, gifts etc) account for 62% of the loss. Migration causes 28% and another 10% are lost through foreclosure, forfeiture or other means.
- Recently, the rate of loss is slowing. In the past 10 years, yearly losses averaged 17 permits. Losses from transfers fell to 13% of all movement. Migration losses, however, rose to 61% (twice its long term average) of all permit movement.

## **Permit Loss – the big picture**

***Various economic and financial differences between locals and non-locals encourages permit outflow from the region.***

1. Factors affecting permit flows are numerous, very complex and may never be fully defined. But knowing the major categories of factors can guide our thinking and lead to desired results. The general factors include:
  - a. Migration of permit holders in and out of the region
  - b. Frequency of transfers by local and non-local permit holders
  - c. Probability that local permits are sold to non-locals
  - d. Probability that non-local permits are sold to locals

- e. Relative differential between numbers of buyers in local and non-local categories.
2. The relative disparity between numbers of potential local permit owners -vs- non-locals is a pervasive force underlying the loss of locally held permits. The reason is that (1) permits tend to distribute themselves evenly across the pool of potential buyers and (2) there are simply more non-local potential permit buyers. So, even if local and non-local buyers are identical in every way, permits will tend to flow toward non-local buyers.
3. At the time the Limited Entry system for salmon and other fisheries was created in 1973 this fundamental economic force was not predicted or understood.
4. But local and non-locals are not identical. There are some very real differences currently favoring non-locals. Non-locals tend to have better access to capital, diversified sources of income and more aggressive business styles. These, and other factors, mean that on average non-local fishermen can better afford permits and investments in vessel improvements.
5. Locals have some advantages as well; local knowledge, cheaper transportation, lower opportunity costs etc. But these factors are most important in years of low harvest or low fish prices.
6. The value of each factor (numbers of potential buyers, access to capital and business style, etc) is constantly changing for both local and non-locals. It is the relative differences between these factors for local and non locals that causes permit flow between the two pools of buyers.
7. Past permit outflow patterns are likely to continue until an equilibrium is established or until programs are developed that give locals advantages that neutralizes the existing differential factors (pool size, access to capital etc) favoring non-local permit buyers.

Little can probably be done to affect non-local factors that determine their demand for permits. Most effective focus for this program should be on in-region programs that retard outflow, help existing and potential new fishermen succeed, facilitate permit acquisition by qualified local buyers.

## **Facts, Findings and Options**

The sections following present the 9 most significant facts and conclusions from the research phase. Within each of these 9 conclusions are a "long-list" of potential options responding to these facts and findings.

The purpose of the long list is to be rigorous in identifying all possible options before choosing those most likely to have the greatest effect on the problem. Laying out all options also allows several smaller ideas to be combined into a single program possibly having a greater effect.

The options listed run the range from obvious to the outer limits of do-able. Options were only eliminated when they were clearly unconstitutional or otherwise impossible.

Neither the list of findings nor the potential options are prioritized.

### ***1. Brokers are used in a majority of local permit sales. Their formal and informal roles in these transactions can be a significant factor in whether a permit leaves the region.***

- Locally brokered transactions tend to more personal and to offer a broader spectrum of services. They often play the role of local match-maker by finding a local buyer for a local permit.
- Local brokers generally limit their activities to just BB salmon permits, a relatively small repertoire for most brokers. Because of the limited number of transactions, a local broker charging normal rates is unlikely to be self-sustaining.
- Brokers based in the region have a significant impact on keeping permits in-region.
- Hardship sales have been avoided by a local broker providing basic financial management services.
- Non-local brokers, by looking for fast easy transactions, bias sales out of region. Permits sold by non-locals through a broker remain out of the region 95%+ of the time.

### **Potential Options**

- Create on-going financial support for an expanded local permit brokerage program.
  - Pay people to list permits for sale with BBEDC first
  - Reward any broker with a higher or flat fee when a deal results in a locally held permit.
  - Heavily advertise local brokerage service, particularly in the spring when many permits are put up for sale.
  - Make the local broker "Free" to the buyer/seller.
- Develop a broker program with a proactive outreach. Look for sellers, catalog potential qualified buyers, keep a file on all locally held permits, network with non-local brokers.
- Utilize a variety of strategies to create widespread village-level awareness of permit brokerage programs, financial assistance and education options.
- Create a qualified "pool" of local residents to acquire permits and make this pool known to all brokers – "make it easy for the brokers"

## ***2. No system exists to identify potential local sellers and help them meet their needs without selling to non-local buyers.***

- Local permit holders likely to sell permits due to financial stress, elderly, in poor health etc are often known to others in their community.
- In stressful conditions, permit sales are often distressed sales – done in a hurry and without full awareness or consideration of all options.
- CFEC data shows that idle permits are likely to be sold within a few years.
- Migrators are a good source of potential permits to sell back to the region locals.

### **Potential Options**

- Target local permit holders that may be moving out of the region. Develop a mechanism to track permit holders that have recently moved out of the region and that no longer fish. Contact these permit holders and solicit permits to sell to local residents.

- Target idle permits as a source of permits to repatriate to locals. Develop a system to identify, track and communicate with these idle permit holders and solicit permits to sell to local residents.
- Create an "early warning system" to identify locals facing financial problems. Offer a range of services to help the seller reach their goals and to also keep the permit in the area.
  - Find a solution so the permit holder keeps his permit with some temporary assistance
  - Find a new permit holder in the region to take over the permit and debt
  - Help obtain temporary emergency and financial hardship transfers
- Give special attention with assistance programs to successful communities and families able to succeed in today's fishery.
- Develop programs tailored to the needs of setnetters – who's needs are often unique to specific beaches.
- Develop and publicize a 'Success Profile' of contemporary role-model fishermen

**3. *More entrepreneurial permit holders (new or existing) tend to bid permits away from local fishermen with lower average gross revenues.***

- Gross income differences between the average local permit and a non-local permit holders results in local permit holders having a lower (net present) value for their permits. Such lower valued permits tend to be bought by fishermen who can or will catch more fish and get more revenue from a permit.
- The earning power of a permit is greater in the hands of more profitable (often higher volume) fishermen. Since the value of a permit is primarily determined by the earning potential of a specific fisherman, its value is higher. This is why locals (with lower average harvest rates) tend to sell their permits in years of higher ex-vessel prices.
- Young adult local residents just entering the fishery compete for permits against all other potential buyers, including



those non-local crewmen on higher average producing vessels with access to more capital and alternative fishing and non-fishing income options.

#### **Potential Options**

- See options #5 and #9 below

#### **4. Fewer locals are pursuing a fishing career.**

- Anecdotal evidence indicates that fewer young local adults are entering the fishery. This may be due to several factors:
  - Fewer mentors or role models with loss of 600 permits
  - Fewer crew jobs offered to locals
  - Less attractive financially compared to other employment alternatives
  - Less attractive socially – reduced prestige as a profession.
- Many current permit holders were first crew members. There is a shortage of local deckhands now learning the ropes to become successful and respected commercial fishermen

#### **Potential Options**

- Develop comprehensive, practical and community-based education and training programs. A wide range of skills and experience is needed to be a successful and competitive fisherman/small business operator.
- Education: develop entrepreneurial talent and knowledge to run a fishing operation as a successful small business
  - Encourage an understanding of the “business of fishing” as a long term career choice. Develop business and financial skills needed for success in today’s fishing industry.
  - Start early in the school system to build respect and appreciation for professional fishermen.
  - Create K-12 lesson plans that develop and refine abilities needed by contemporary fishermen.

- Work with the UA to develop college classroom curriculum for new and existing fishermen to teach business management, gear handling strategies, quality handling practices and boat maintenance skills.
- Training: Build skills and experiences needed to become successful contemporary fishermen
  - Fishing know-how may be best learned in a deckhand program.
  - Identify and pay local "heroes" as mentors in schools and as trainers on the boat. Develop materials and programs.
  - Build maintenance skills- vessel, equipment and gear know-how
  - Utilize SeaGrant to develop and impement programs – they have competence in other Alaska fisheries.
  - Pay interns for a pre-season work program
  - Provide a crew-share match to skipper hiring inexperienced local trainee crew
  - Explore the use Dept of Labor Training funds
- Reward participants completing training &/or education programs with ongoing support for buying permit and boat. Publicize successful local program participants.
- Integrate CDQ high seas fishing training, employment and careers with salmon fishing to create a fishing lifestyle
- Develop scholarship programs for qualifying students and trainees
- Explore using existing authority to use educational permits in the BB salmon fishery for education and training programs.

##### ***5. Gifting is a significant transfer method among BB-ARLs***

- Transfers by gift are particularly significant for setnet permits.
- Under current law, gifting; like any permit transfer, requires giving up all control of a permit. However, gifting to a relative may allow the original permit holder a badly needed ongoing source of income.
- The recipient of a permit by gift has complete control of the permit and may sell it at any time.

- Gift data may be exaggerated by also including some permit leasing arrangements.
- CFEC has helped families and partners with transfers support their needs to sustain those relationships

### **Potential Options**

- Encourage gifting to BB-ARLs – provide a bonus for successful gift transfers.
- Create a contractual obligation for the local buyer to share some fishing proceeds with the gift giver. Some form of subsidy might be possible to lessen the financial impact on the permit recipient from sharing fishing income.
- Provide a long term annuity to the permit giver, possibly enhanced by a matching program from external financial source.

### **6. *The majority of transfers are self-financed.***

- Currently most sales of Bristol Bay permits do not involve financial institutions
- Self-financed transactions are increasing; climbing to over 80% in recent years.
- The current role of banks, CFAB and the Alaska Division of Investments is relatively small – though significant on an individual basis.
- Self-financed sales normally include a contract which may open the door for some creative and individualized options for keeping permits in local ownership.
- CFAB and DOI programs are available to all Alaska residents

### **Potential Options**

- Right of First Refusal – Establish a right of first refusal as part of a loan contract that requires the loan recipient to first offer the permit to local residents. The permit would be priced at market value.
- Set up a BBEDC loan guarantee program (See Lower Yukon program set up by Yukon Delta) that guarantees loans of DOI, CFAB, banks or other lenders for locals.

- Bridge financing – establish a source of funding to cover the gap before a borrower qualifies for DOI or CFAB financing.
- Earned Financial Credits – Provide loan reduction or forgiveness programs for local fishermen based on performance requirements that match BB Permit program goals.

### ***7. The ability to own or control more than one permit seems to be stimulating demand for permits.***

The term “stacking” may mean many different things. To clarify discussion of this point we suggest a few definitions.

- a. Stacking is a general term that means putting two permits on one fishing vessel.
  - i. Dual stacking is where two or more permits are controlled by one person. They may or may not fish on the same vessel.
  - ii. Independent stacking allows two independent permit holders to share costs on one vessel and may also allow use of additional gear.

- Increased demand for permits to use in dual stacking is widely thought to be creating upward pressure on permit prices. Higher prices may lead lower volume permit holders to cash in and also make acquiring new permits more expensive.
- Other evidence indicates that permits currently not being fished are a source of supply for stacked permits so stacking may have a limited effect on permit prices.
- Anecdotal reports indicate a high level of interest especially among large volume fishermen in controlling a second permit for dual stacking, often in the name of a relative or crew member.
- Data on either dual stacking or independent stacking is not collected. We do not know how large any price pressure on permits may be - is or its impacts on fishing incomes.
- With more districts legal for permit stacking in 2007 many predict significant increase of both types of stacking.

### **Potential Options**

- Institute system to track the number of 1) dual stacking permits (two permits controlled by a single person) and 2) independent permit stacking (two permit holders sharing the cost of a single vessel).
- Develop a means for measuring the impacts of both permit stacking strategies on pricing of permit and fishing incomes.

### **8. *There is no centralized source of information or comprehensive program available to help local residents retain permits in the region.***

- Lack of awareness of financial or transfer options exacerbates permit outflow.
- This is especially true for "distressed" sales. Sales are often forced by the permit holder's poor overall financial situation. Such sales are less voluntary than they appear.
- Permits sold under distress often need to be sold fast. Such situations may not allow enough time for financial counseling, shopping for alternative solutions, for getting the best price or for keeping that permit in the area.
- There are a small number of ways that some permits are lost that seem relatively easy to avoid; forfeiture and foreclosure in some situations. CFEC's use of emergency and hardship transfers have prevented some permits from leaving the region.
- Financial counseling has kept some fishermen fishing and, if the permit is sold, kept it in the family or in the region.
- Permit holders living in villages have different needs than those in hub communities. Solutions need to be tailored for both.
- Lack of knowledge contributes to financial problems and ultimately to more permits leaving the region:
  - Villagers may not talk with friends or family before they sell a permit. Neighbors and family may be unaware of a likely sale – making it difficult to provide help.
  - Some in-region permit holders have only a basic understanding of financial management and planning.

Until recently, canneries took care of these matters for their fishermen.

### **Potential Options**

- Create and fund a centralized office to oversee and coordinate all local BB Permit and fishing programs. Skills of the Center's Director should include political, business, financial and management.
- Staff the Permit Center using trained area residents with credibility and understanding of local culture and people to:
  - Spread the word about transfer options available for permits
  - Tell locals about financial assistance programs that are available to locals
  - Educate locals on importance of transferring permits to other BB ARL, create ethic of holding onto permits in region – make it a culture matter.
  - Send annual education card and develop educational public service announcements
- The Program might also manage a local "peer group" in each community to promote enhanced permit holdings. Their tasks could include:
  - Identifying future fishermen and those in financial trouble that need assistance
  - Educating locals on need to keep permits in local economy, applying peer and community pressure
  - Working with financial programs to help them evaluate candidates for financing and other assistance programs
  - Developing target goals for returning permits
  - Involvement in education and training programs
- Create a Permit Purchase Fund by a locally owned private or non-governmental organization (NGO) to buy/sell permits. This option will require legislative change to allow entities (now just natural persons) to own permits.
- Regularly evaluate and adjust the Permit Center's programs to maintain effectiveness in a changing fishery where economic, financial and competitive forces will be constantly changing and programs will have to adapt to be effective.

**9. *Adjustments to state law or programs may help reduce permit outflow from rural communities.***

Although legislative or administrative adjustments may help restore permits to the region, any such ideas must be assessed very carefully. These types of fixes are very difficult to reverse and frequently come with unintended consequences or introduce extra costs and complexity into the fishery.

- Alaska state constitution and court decisions prohibit rural preference in the distribution of limited entry permits.
- The framers of the limited entry program realized the importance of permits to local residents. Those needs were addressed in the standards for original issuance of permits; economic dependence and availability of other sources of income.
- But these original intentions have been offset by events. 30+ years of the program have resulted in the loss of over 600 permits leave the BB region.

**Potential Options**

- Allow permit leasing. It is unclear if this would benefit locals. In addition, recent case law also emphasizes the need for the permit holder to be an active participant in the fishery.
- Tax the statewide salmon fishery to generate funds to finance a defined package of local permit support programs. All members of the industry have a stake in promoting local permit ownership.
- Amend limited entry law to allow permit holders to sell a "permit easement" providing a first preference for future sale of the permit to BB –ARL. Initial legal review indicates this option has serious Alaska Constitutional problems.
- Expand encumbrance authority – Amend limited entry law to allow CDQ, qualified non-profits and/or communities to utilize permits as collateral to expand financing programs. This option raises several practical problems as banks and canneries have in the past requested this option too. Initial legal review indicates constitutional issues with this option.
- Amend notice of intent to transfer procedures to require sales contracts to be submitted at the beginning of the 60-day transfer period. This may give the seller more time to consider other options.

- Modify the federal CDQ program to include the state's salmon fishery. This concept might ultimately require federal pre-emption of the state's role in salmon management.
- Explore a local preference in the sale of permits foreclosed on by Division of Investments or CFAB. A local permit obtained through foreclosure might be channeled back to a new local owner. This option may have merit, particularly if packaged with a loan guarantee program. This option would encounter constitutional problems if extended too far.
- Issue new non-transferable permits to locals. This may require un-doing the Optimum Number study in order to create new permits.
- Create a privately endowed loan program that partners with an existing CFAB or DOI authority. Use of private funds and guarantee mechanisms may give greater flexibility in program management. Partnering with CFAB/DOI solves having to change state law limiting collateralizing permits.

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# **Goals for Restoring Salmon Permits to Local Residents**

**Submitted to**

**Bristol Bay Economic Development Corporation**  
May 2, 2007

**RedPoint Associates**  
Terry Gardiner  
Bob Waldrop

## Introduction

At the April 9, meeting of the Bristol Bay Permit Committee, RPA asked that the group define a goal for the number of permits that should be held by local residents.

After some discussion, the Committee tentatively suggested a goal of restoring local control of salmon permits to their initial 1975 levels. This document describes some of the main implications of this goal as expressed in permit numbers and the time required to return locally held permits to their original numbers.

It is worth noting that increasing the number of locally held permits does not necessarily need to stop after reaching the defined goal.

Identifying and agreeing to these goals and permit numbers is important. Such a goal will guide the development and proportionality of strategies and eventually help estimate program budgets.

**Table 1. Local Permit Loss and Transfer Rates**

	<u>Initial Issuance</u>	<u>Remaining 2005</u>	<u>Lost Permits</u>	<u>% Lost</u>	<u>Total permits 2005</u>	<u>Avg Annual Transfers All permits</u>	<u>Avg Annual Transfers Non-local</u>
<b>Drift</b>	713	408	305	43%	1862	166	129
<b>Setnet</b>	661	366	295	45%	988	86	52
<b>Total</b>	1374	774	600	44%	2850	252	181

Table 1, shows the number of permits (transferable and non-transferable) that have been issued to Bristol Bay local residents, the number of permits now held locally and the percentage lost. The last two columns show how many permits transfer in an average year (252) and how many of those are transfers on non-local permits (181). This latter number is the pool from which any new local permits must be drawn.

The average annual permit transfer is the average number of permits transferred between 2000-2005. That period was chosen to capture the most recent factors influencing transfers. But, as shown in Table 2 below, it turns out that recent average is similar to the thirty year long term average.

**Table 2. Permit Transfers**

<u>Year</u>	<u>Annual drift Transfers</u>	<u>% of all driftnet Permits</u>	<u>Annual setnet Transfers</u>	<u>% of all setnet Permits</u>
2000	125	7%	83	9%
2001	149	8%	84	9%
2002	165	9%	77	8%
2003	182	10%	81	9%
2004	145	8%	86	9%
2005	229	12%	103	11%
<b>2000-2005 avg</b>	<b>166</b>	<b>9%</b>	<b>86</b>	<b>9%</b>
1975-2005 avg	149	8%	92	10%

Table 2, displays the level of transfer activity for all driftnet permits and for all setnet permits and is shown here only to point out the methodology used to create the average number of permit transfers. Note the similarity between the 2000-2005 average and the longer period since 1975 (166 for driftnet permits -vs- 149 respectively).

## Restoring Permits to Original Numbers

Reaching this goal will require shifting 305 drift and 295 setnet permits from non-local permit holders to local permit holders. Calculating the amount of time required to reach this goal is based on a single assumption – picking the percentage of non-local transfers that result in returning a permit to local control.

Table 3, below is based on the goal of returning locally held permanent transferable permits to 1975 levels. For the sake of simplicity, this analysis assumes no migration of BB-ARL permits and that transfers of all BB-ARL permits will be to other local residents.

**Table 3. Years to Reach Goal**

Rate of permit transfer---->	Years to Reach Goal								
	<u>90%</u>	<u>80%</u>	<u>70%</u>	<u>60%</u>	<u>50%</u>	<u>40%</u>	<u>30%</u>	<u>20%</u>	<u>10%</u>
Years to Reach Goal:									
Driftnet	2.6	2.9	3.4	3.9	4.7	5.9	7.9	11.8	23.6
Setnet	6.4	7.1	8.2	9.5	11.4	14.3	19.1	28.6	57.2

The number of permits transferred back to local control each year is calculated using different percentage rates of non-local transfers flowing to Bay residents (and resulting in a net increase of local permits). We have selected a 50% rate of non-local permit transfers to local residents. At this rate, reaching the driftnet goal will take 4.7 years. At the same 50% rate, reaching the setnet goal takes 11.4 years because the pool of non-local permits is smaller than for driftnet permits.

This calculation was then done to include the effect of a declining pool of non-local permits (from some of that pool becoming Bristol Bay local permits) and thereby extending the time required to reach the goal. While the declining pool has some effect, it is small – extending the time for drifts by about 6 months and but longer for setnets extending the time by 3.6 years.

**Table 4. Driftnet – Time to Restore Permit Numbers to 1975 Levels -**

**Driftnet 50% Transfer Scenario**

	<u>total</u> <u>permits</u>	<u>BB-ARL</u>	<u>Non-BB-ARL</u>	<u>AVG Annual</u> <u>Permit Transfer</u>	<u>Non-Local</u> <u>Permit Transfer</u>	<u>50% transfer rate</u> <u>to BB-ARL</u>	<u>Year End total</u> <u>Permits by BB-ARL</u>
Year One	1,862	408	1,454	166	129	65	473
Year Two	1,862	473	1,389	166	124	62	535
Year Three	1,862	535	1,327	166	118	59	594
Year Four	1,862	594	1,268	166	113	57	650
Year Five	1,862	650	1,212	166	108	54	704

The far right column of Table 4 shows the rising number of permits due to repatriating 50% of non-local permits. The goal is to increase local ownership to about 713 permits. As shown above, getting to 704 permits will take 5 years. By extrapolation, reaching the full goal will take 5.2 years.

**Table 5. Setnet – Time to Restore Permit Numbers to 1975 Level**

**Setnet 50% Transfer Scenario**

	<u>total</u> <u>permits</u>	<u>BB-ARL</u>	<u>Non-BB-ARL</u>	<u>AVG Annual</u> <u>Permit Transfer</u>	<u>Non-Local</u> <u>Permit Transfer</u>	<u>50% transfer rate</u> <u>to BB-ARL</u>	<u>Year End total</u> <u>Permits by BB-ARL</u>
Year One	988	366	622	86	52	26	392
Year Two	988	392	596	86	52	26	418
Year Three	988	418	570	86	50	25	443
Year Four	988	443	545	86	47	24	466
Year Five	988	466	522	86	45	23	489
Year Six	988	489	499	86	43	22	511
Year Seven	988	511	477	86	42	21	531
Year Eight	988	531	457	86	40	20	551
Year Nine	988	551	437	86	38	19	570
Year Ten	988	570	418	86	36	18	589
Year Eleven	988	589	399	86	35	17	606
Year Twelve	988	606	382	86	33	17	623
Year Thirteen	988	623	365	86	32	16	638
Year Fourteen	988	638	350	86	30	15	654
Year Fifteen	988	654	334	86	29	15	668

Applying the same methodology as in Table 4, the table above shows that reaching the setnet goal of 661 permits will require 15 years – about 3.6 years longer than indicated in table 3.

Restoring permits to the number of permits originally issued will raise locally held permits from 11% to 20% of today's population – a level that would place it at the top of locally held permits for any region of the state. Cordova, at 13%, is currently the community with the highest per capita permit ownership.

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## Appendix

	Setnet Permits			Driftnet Permits			Total BB Salmon Permits		
	BB-ARL	Total	% BB-ARL	BB-ARL	Total	% BB-ARL	BB-ARL	Total	% BB-ARL
<b>1975</b>									
Transferable Permits	424	716	59%	507	1416	36%	931	2132	44%
Non Transferable Permits	0	0		0	0		0	0	0%
Permanent Permits	424	716	59%	507	1416	36%	931	2132	44%
<b>Original Issuance</b>									
Transferable Permits	557	883	63%	713	1875	38%	1270	2758	46%
Non Transferable Permits	104	158	66%	0	0		104	158	66%
Permanent Permits	661	1041	63%	713	1875	38%	1374	2916	47%
<b>2005</b>									
Transferable Permits	327	920	36%	408	1859	22%	735	2779	26%
Non Transferable	39	68	57%	0	0		39	68	57%
Permanent Permits	366	988	37%	408	1859	22%	774	2847	27%

Note:

Original issuance includes all permits issued by CFFEC between 1975-2005.  
1975 permit numbers are not the same as Original issuance

# **Bristol Bay Salmon Permits**

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## **Elements of Change**

Research Update  
for  
The Bristol Bay Economic Development Corporation

Submitted by  
RedPoint Associates  
Terry Gardiner & Bob Waldrop  
April 9, 2007

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## **Glossary**

ARL – Statewide Alaska Rural Local

BB-ARL – Bristol Bay Alaska Rural Local (Dillingham census area, Bristol Bay Borough and watershed portions of the Lake and Peninsula Borough.

Foreclosure - change due to CFAB or DCED repossessing permit

Migration - changed address to different residence category.  
Same person holds permit.

Relocation – permit change through both migration and transfer

Transfer – new permit holder via sale, gift etc.

# **Bristol Bay Permits Factors affecting local holdings**

## **Introduction**

Bristol Bay Economic Development Corporation contracted with Alaska Growth Capital (AGC) and RedPoint Associates (RPA) to analyze factors behind the loss of limited entry permits from local control and to recommend means for increasing their numbers.

The goal of the program is to develop practical solutions for increasing the number of Limited Entry salmon permits held by residents of the Bristol Bay region.

Relocation of Limited Entry permits is not new. The problem was anticipated at the start of the Limited Entry program, though never solved. Finding solutions will require hands-on familiarity with a complex mix of issues; constitutional, regulatory, policy, procedural, financial and practical. Solutions are possible.

The project is divided into three broad phases:

1. Research of conditions and trends
2. Develop options and alternatives
3. Design new programs

This document reports on the first of these three phases.

## **Overview of Research Phase**

During this research phase, RPA;

- verified permit loss rates.
- refined current understanding of why permits are declining.
- defined how permits are leaving the region.
- estimated the importance of locally owned permits for the region's economy.

- recommends for discussion a target number for locally owned permits to guide development of possible solutions.

## Summary of Findings

This far into the research phase, several important factors are emerging. These factors are described throughout the report in greater detail – but are summarized here. The findings are grouped here under the major section headings to follow.

1. Limited Entry Program - Social and Economic Intent
  - Permit allocation allows for economic need and protects existing permit holders
  - No explicit preference is available for local residents
  - provisions do exist to protect locally held permits (and all other holders) - once locals are grandfathered into the system.
2. Locally held permits – Overall changes
  - a. Decline of Alaska Rural Local Permits
    - Locally held permits are declining around Alaska. 7,528 limited entry permits were initially issued to Alaska Rural Locals (ARLs) around the state, 46% of all permits. By the end of 2005, 38% were held by ARL residents; a reduction of 24% or 1,989 permits
    - Bristol Bay-ARLs are losing permits at a faster than average rate statewide. Bristol Bay Alaska Rural Local (BB-ARL) residents received 44% of all Bristol Bay permits. By 2005 BB-ARL permits declined to 735 - 26% of all Bristol Bay salmon permits.
    - Permits relative to population are falling even faster. In 1975, for every 100 people in the region, 28 held permits. In 2005, there are 11 permit holders for every 100 people.
  - b. Economic significance of locally held permits
    - Cumulative loss of over 500 permits from the Bristol Bay region has cut over \$250 million from the local economy.
    - Ex-vessel values for local permit holders are less than the fleet average - and that gap is growing.

- Lower average revenues and "capital stuffing" are placing locals at a disadvantage to bid on permits
- Bristol Bay communities are more significantly dependent on salmon than other major fishing communities in Alaska

### 3. How permits are lost to the region

- a. Migration accounts for the minority of lost permits:
  - 56 drift, 19% of total permit loss to BB-ARL?
  - 110 setnet, 40% of all BB-ARL transfers
- b. Transfers accounts for the majority of lost permits
  - 244 drift, 81% of all BB-ARL transfers
  - 162 setnet, 60% of all BB-ARL transfers
- c. Transfer methods (Gift/Sale etc)
  - Gifts are the most common way that BB-ARLs receive permits
  - When BB-ARLs transfer permits out of region, sales is the most common means of transaction.
- d. Transferor-Transferee Relationship
  - Bay fishermen transfer to types of transferees (partners, family etc) in much the same proportions as all limited entry permit holders.
  - locally held driftnet permits transfer to unrelated parties far more frequently than the average driftnet permit holder (71% -vs- 45%).
- e. Transfer – Residency type
  - 40% of BB-ARL driftnet transfers were to other BB-ARLs.
  - 56% of BB-ARL setnet permits transferred to other BB-ARL's.
- f. Financing Transfers
  - The majority of Bristol Bay permit transfers are self-financed; more often for setnetters (65%) than for driftnet permit holders (56%)
  - Outside financing of permit transactions (banks, the state and CFAB) fell from a 25 year average of 37% for driftnet to 13% in 2005.
- g. Permit Brokers

- The brokerage system generally disadvantages locals by generally representing non-BB-ARLs. This worsens as non-region permits increase.
- Other changes in financing, ownership patterns and stacking are combine with brokering to increase local disadvantage

#### h. Stacking

- 160 of 560 vessels stacking in the Nushagak in 2006
- No data exists to measure the impact of stacking
- Most stacking is presumed to be by single fishermen controlling two permits.

## Limited Entry - Social and Economic Intent

Limited entry is more than a mathematical allocation of permits. The program is legally required to take certain economic and social needs into consideration in implementing the program.

The Alaska Constitution, was amended in 1972 to allow for the limited entry program. That amendment refers to the need to prevent economic distress and the need to protect those depending on residents depending on fishing for their livelihood.

"This section does not restrict the power of the State to limit entry into any fishery for purposes of resource conservation, to prevent economic distress among fishermen and those dependent upon them for a livelihood....."

Other sections of the constitution refer to "maximum benefit", "public interest" and "common use."

No explicit provisions, however, exist in law or regulations about placing permits in the hands of local people. Two legal cases expressly prohibit rural preference in the distribution of permits; *McDowell* (subsistence) & *Enserch* (local hire).

Nevertheless, framers of the Limited Entry Act knew that local people were well represented in the salmon fisheries, and there are provisions to protect locally held permits - once locals are grandfathered into the system.

Concern about the needs of local people is reflected in the measures of economic dependence and availability of alternative occupations, both of which contemplate people living in areas with fewer alternative ways to make a living and greater dependence on their fisheries. AS 16.43.250. Importantly, these standards apply to residents of all states.

Local Alaskans (and Alaska Natives) did very well on initial issuance of entry permits. Although applying these standards was a tightrope act. CFEC's first application of the availability of alternative occupations standard was struck down by the Alaska Supreme Court in *Deubelbeiss*. CFEC's effort to revive the standard has not yet been legally challenged, so it is not yet court-tested.

Limited entry law (AS 16.43.290) governing optimum numbers establishes a goal of protecting those currently engaged in the fishery from serious economic hardship

"Following the issuance of entry permits under AS 16.43.270 , the commission shall establish the optimum number of entry permits for each fishery based upon a reasonable balance of the following general standards:

- 1) the number of entry permits sufficient to maintain an economically healthy fishery that will result in a reasonable average rate of economic return to the fishermen participating in that fishery, considering time fished and necessary investments in vessels and gear;
- 2) the number of entry permits necessary to harvest the allowable commercial take of the fishery resource during all years in an orderly, efficient manner, and consistent with sound fishery management techniques;
- 3) the number of entry permits sufficient to avoid serious economic hardship to those currently engaged in the fishery, considering other economic opportunities reasonably available to them."

The legal tools protecting the places of local people in their fisheries are:

- (1) Grandfathering (and protecting of the permits in the hands of their holders, by, for example, prohibiting pledging permits as security for debts), and
- (2) Transferability providing permit holders the power to transfer to family members, partners, and other locals -- something the state could not achieve (note the numbers of permits transferred between family members by gift). .

The power to transfer is important, because it presents the best opportunity for locals to get and protect entry permits -- at least among the available alternatives.

Transferability represents the power to get and keep permits in local hands.

## **Locally Held Permits – Overall Changes**

### **Decline of Alaska Rural Local Permits**

CFEC records show that a total of 7528 limited entry permits were initially issued to Alaska Rural Locals (ARLs), 46% of all permits. By the end of 2005, 38% were held by ARL residents; a reduction of 24% or 1,989 permits<sup>1</sup>.

The decline for BB ARLs is even steeper. Local residents of the Bay region currently hold far fewer Bristol Bay salmon permits than were originally issued in 1975. The loss of BB-ARL permits is almost continuous for both driftnet and setnet permits.

Of all 2,916 Bristol Bay limited entry permits issued in 1975, Bristol Bay Alaska Rural Local (BB-ARL) residents received 44%, or 1,270. By 2005 BB-ARL permits declined to 735 - 26% of all Bristol Bay salmon permits – a decline of 42%.

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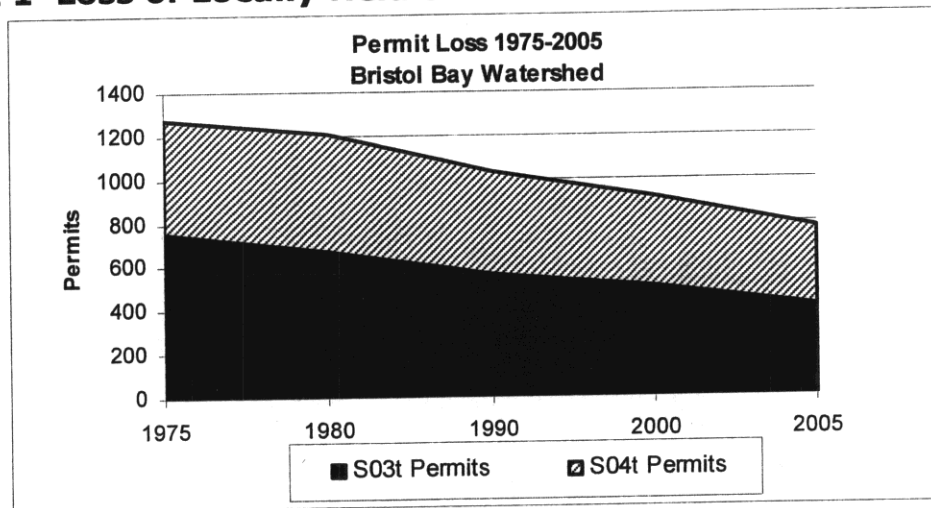
<sup>1</sup> CFEC ibid pg 20

**Table 1 - Original Salmon Permit Issuance compared to 2005**

	1975 All BB Permits	1975 BB ARL	% of All BB	2005 All BB Permits	2005 BB ARL	% of All BB	1975-2005 Change
Driftnet	1875	713	38%	1859	408	22%	-43%
Setnet	1041	557	54%	988	327	33%	-41%
Totals	2916	1270	44%	2847	735	26%	-42%

Source: CFEC and RedPoint analysis<sup>2</sup>

**Chart 1 Loss of Locally Held Salmon Permits**



Source: CFEC

Bristol Bay residents are also losing permits faster than locals in other regions as a whole. As of 2005, Bristol Bay residents retain 58% of the original number of permits issued to them. Statewide ARLs retain an average of 74% of their original totals<sup>3</sup>.

The sharper loss of locally held driftnet permits is particularly difficult for the region since the average locally held driftnet permit brings 3 times more revenue to the region than the average setnet permit<sup>4</sup>. In 2004, the average locally held drift permit earned \$31,445 compared to \$10,761 for the local setnet permit holder.

<sup>2</sup> CFEC: Changes in the Distribution of Alaska's Commercial Fisheries Entry Permits 1975-2005. pg 24 ff

<sup>3</sup> CFEC ibid (pg 30 ff) and RedPoint analysis

<sup>4</sup> CFEC: Bristol Bay Salmon Drift Gillnet and Set Gillnet Fisheries: Permit Holdings and Participation Rates by Age and Resident Type 1975-2004.



## **Economic Significance of Locally Held Permits**

It is not possible to fully define the relative economic importance of local control of limited entry permits in the region's economy. No good research has been done on the total economic activity of the Bristol Bay region or on the contribution of limited entry permits to that economy.

One measure for which there is adequate data is employment - a common indicator of economic significance. A fair measure of permit holder value to the local economy can be seen by looking at the harvesting component of total employment.

**Table 2 – Estimated Employment**

<b>BASIC</b>	Ann. Avg	Avg Ann %	Summer	Winter	Other mos
Fish Harvesting	2,552	41%	7,657	0	7,657
Fish Processing	1,150	18%	4,193	200	3,993
Recreation	311	5%	933	0	933
Government + Health	2,098	34%	1,795	2,104	-309
Mining	150	2%	450	0	450
	6,261		15,028	2304	12,724

Source: Duffield et al

In 2004 the average annualized number of basic jobs (not including support jobs created by basic activities) in the region was 6,261. Commercial fish harvesting was 2,552 – or 41% of all basic jobs and the largest source of jobs in the area's economy<sup>5</sup>.

Basic jobs create additional jobs. Fishermen, for example, need boat repair, surveys, grub and web hanging services. The University of Alaska estimates that in Bristol Bay, every 6 basic jobs create another supporting job or a multiplier of 117%. So in 2004, the full contribution of commercial fishing to the area's total employment is actually 2,977 ( $2,552 \times 117\% = 2,977$ ).

But how many of these jobs bring their harvest revenues back to a local community? In 2005, 27% of all Bristol Bay permits were held by local residents. This implies that roughly 804 of the 2,977 harvesting jobs stemmed from local involvement in salmon harvesting – possibly the largest single source of jobs in the Bay economy.

<sup>5</sup> Economics of Wild Salmon Watersheds: Bristol Bay, Alaska. Duffield et al. February 2007.

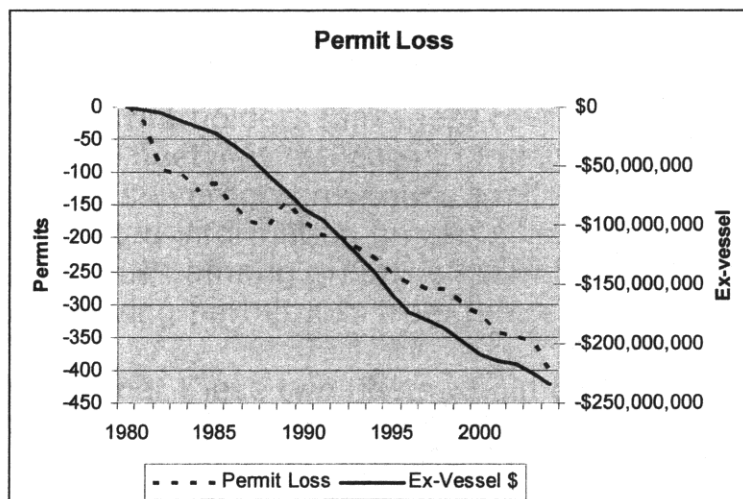
**Table 3. – Percentage of salmon permits in Alaska Communities**

	<u>Population</u>	<u>Salmon Permits</u>	<u>Salmon lbs Delivered</u>	<u>% Permits in Comm.</u>
Cordova	2,327	301	25,385,156	12.9%
Petersburg	3,010	256	29,571,796	8.5%
Sand Point	951	64	16,955,433	6.7%
Wrangell	2,117	100	6,028,365	4.7%
Haines	1,811	59	7,481,023	3.3%
Sitka	8,986	291	16,725,434	3.2%
Kodiak	6,273	187	68,632,483	3.0%
Average of Above	3,639	180		4.9%
Bristol Bay Region	6,996	775	35,610,078	11.1%

Despite the drop in locally held permits, compared to other Alaska communities, the Bristol Bay region retains a high percentage of permits in their population. Of the communities listed above, Bristol Bay has more than twice the average percentage of salmon permits. Only Cordova is higher.

## **General Economic Impact of Permit Loss**

**Chart 2 – Loss of Permits and Revenue**

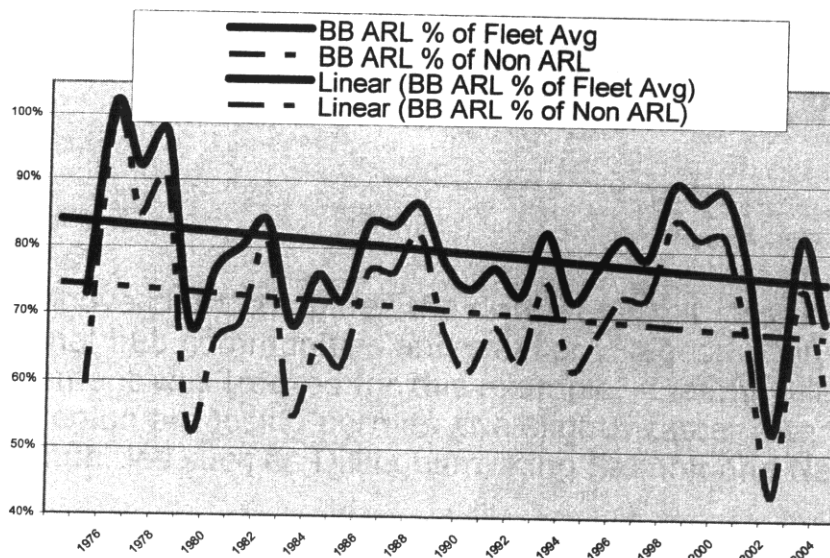


The inflation-adjusted dollar loss to communities from the loss of these permits is dramatic. Many of the dollars brought into the region from commercial fishing (ex-vessel revenues) are spent throughout the year

there on groceries, utilities, construction and support schools and other public services.

When there is a net loss of permits from the area the economy suffers. As permits leave the region, so does the income they generate. In the past 25 years, permit control of roughly \$256 million in ex-vessel revenue has been lost to the local area<sup>6</sup>.

**Chart 3 - BB-ARL Revenue Compared with Average Fleet Revenue**



Source: CFEC raw data with RedPoint analysis

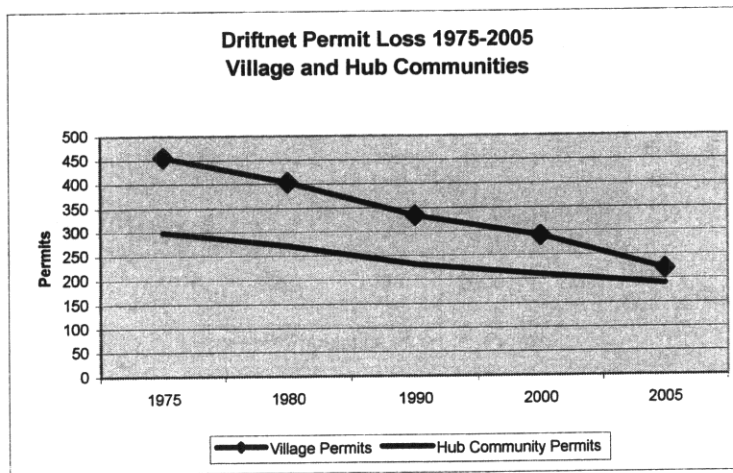
Over time, local permit holders make less revenue from their permits than the rest of the fleet. At the outset of limited entry in 1975, Bristol Bay residents averaged revenues similar to the fleet average. This and other related information on capital stuffing strongly indicates that differing revenues among groups of permit holders is an important force driving permit loss from the region.

One hypothesis is that these two fleets would calculate the value of a permit at different level and that non-Bristol Bay residents would bid permit prices to levels commensurate with their higher ex-vessel revenues.

<sup>6</sup> CFEC: Bristol Bay Salmon Drift Gillnet and Set Gillnet Fisheries: Permit Holdings and Participation Rates by Age and Resident Type, 1975-2004.

## Permits and Population

**Chart 4 – Driftnet Permit Losses – Villages and Hub Communities**



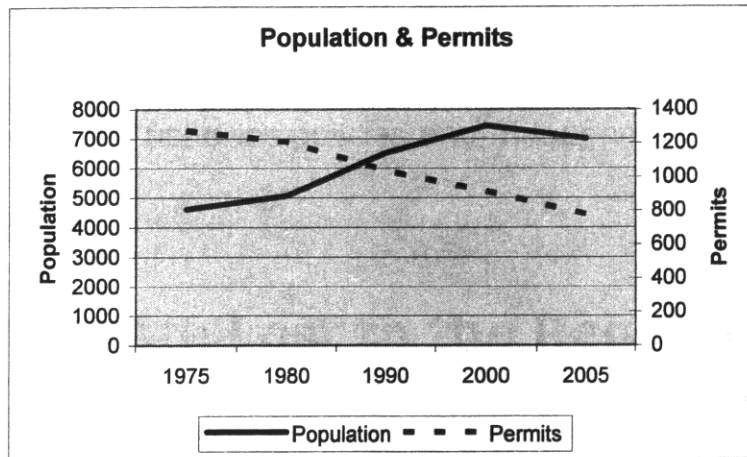
Source: CFEC and Redpoint analysis

The above chart compares the driftnet permit loss rates between regional hub communities and smaller villages. Only driftnet permit movement was tracked for this example. Clearly villages in the Bristol Bay region are losing permits at a slightly faster rate than communities such as Dillingham, King Salmon and Naknek.

Although permit declines are greatest from smaller villages, the losses in either case are steady and significant. The problem affects all communities. Permit loss, however, is likely to have proportionately greater impacts on smaller villages. In a village of 100, the loss of just a few permits can be important to that community.

A closer look needs to be given to whether village permits are flowing to the larger communities. The flow of setnet permits should also be assessed.

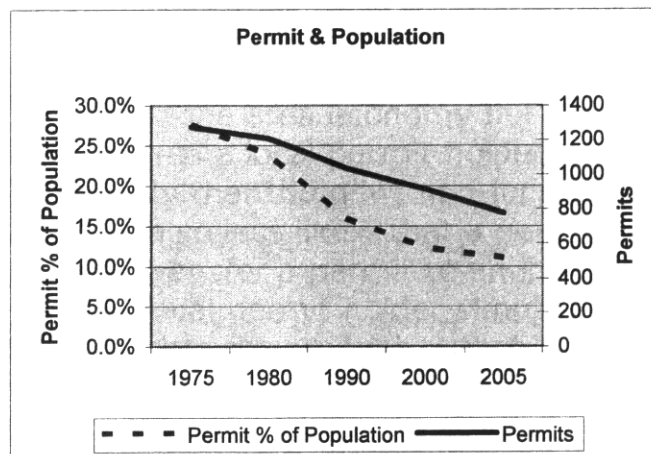
**Chart 5 – Population and Permit Numbers**



Source: CFEC and RedPoint analysis

Nominal permit loss among local residents is significant and steady. But that loss becomes more pronounced when contrasted to the region's rising population; revealing a greater decline in the impacts of fishing on the region.

**Chart 6 – Loss of Local Permits and Area Population**



Source: CFEC and RedPoint Analysis

As population rises and permits fall, permits as a percent of population fall even faster than in nominal numbers of permits. Since 1975, numbers of permits has fallen from over 1,200 to 775 a decline of about 40%. However, the decline of permits relative to population falls from 28% to 11%. In 1975, for every 100 people in the region, 28 held permits. In 2005, there are 11 permit holders for every 100 people.

This is likely to have significant social and economic consequences as commercial fishing becomes a smaller part of the region's social fabric. Beyond the decline of permits - and the missing revenue they once brought to the region - permit loss also means less regional influence on state and federal fisheries policies and management decisions.

## **How Permits are Lost to the Region**

After 1980, CFEC requires the permit recipient to complete a comprehensive survey each time a permit transfers. Since 1983 the CFEC also requires that the survey be completed by the permit transferor. Much of the data in this report is based on information obtained from those transfer surveys. More than 98% of all transfers are recorded in these surveys.

Limited entry permits leave the area by two broad avenues.

1. Migration - when a local permit holder retains the permit but moves out of the region.
2. Transfers - when a permit is transferred from a local holder to a non-local.

Either route is harmful to the area economy but transfers are probably the most damaging. When a local permit holder transfers a permit to a non-local it is less likely that the new, non-local permit holder will hire a local crew. It is also less likely that a permit holder no longer living in the region will transfer a permit to an in-region person. On the other hand when a local permit holder simply moves (migrates) outside the region, the chances are higher that he might continue to hire a local crew or in some other manner spend more fishing revenues in the area.

### **Permit Migration**

Permit migration refers to permits leaving the area due the permit holder moving out of the area. In some regions, this is a major source of permit loss.

**Table 4 - Net Shifts in Bristol Bay ARL Permits Due to Migration**

	BB-ARL <u>Drift</u>	BB-ARL <u>Setnet</u>	Total BB-ARL	Statewide <u>All ARL</u>	BB-ARL % of ARL
Original Issuance 1975	713	661	1374	6768	20.3%
Permits lost	300	272	572	1389	41.2%
Permits lost - Transfers	244	162	406	605	67.1%
% Lost through Transfer	81%	60%	71%	44%	

The table above shows that locally held permits leave the Bristol Bay area due to migration but at the same general rate (12.1%) they are leaving other local areas (11.6%). However, just 8% of originally issued BB-ARL driftnet permits migrated out of the region

Locally held Bristol Bay permits are being lost by permit holders moving out of the region – but not at a rate that accounts for their above average decline compared to other regions.

## **Permit Transfers**

**Table 5 - Net Shifts in Bristol Bay-ARL Permits Due to Transfer**

	BB-ARL <u>Drift</u>	BB-ARL <u>Setnet</u>	Total BB-ARL	Statewide <u>All ARL</u>	BBARL % ARL
Original Issuance 1975	713	661	1374	6768	20.3%
Permits lost	300	272	572	1389	41.2%
Permits lost - Transfers	244	162	406	605	67.1%
% Lost through Transfer	81%	60%	71%	44%	

Since 1975, transfers of all ARL limited entry permits have resulted in a net loss of 9% of permits from the statewide ARL category. Bristol Bay ARL transfers have resulted in a loss of 34% for Bristol Bay ARL driftnet permits and a 24% decline in locally held Bristol Bay setnet permits<sup>7</sup>. Permit transfers, not migrations, is the reason why BB-ARL permits are falling faster than locally held permits statewide.

<sup>7</sup> CFEC ibid pg 192-193

## **Permit Transfer - Summary**

**Table 6 - Permit Loss by Migration & Transfer - Summary**

	BB-ARL <u>Drift</u>	BB-ARL <u>Setnet</u>	Total BB-ARL	Statewide <u>ARL</u>	BB-ARL as % ARL
Original Issuance 1975	713	661	1374	6768	20.3%
Transfer	244	162	406	605	67.1%
Migration	56	110	166	784	21.2%
Remaining 2005	413	389	802	5379	14.9%
Remaining %	58%	59%	58%	79%	
Permits lost	300	272	572	1389	41.2%
Lost %	42%	41%	42%	21%	

Source: CFEC raw data compiled by RedPoint

Table 6 summarizes permit relocation via migration and transfers – and comparing total permit loss from BB-ARL residents with comparable data for all ARL permit holders statewide. All Alaska Rural Local permit holders lost 21% of their permits between 1975 and 2005. During the same time span, local Bristol Bay residents lost 42% of their permits; some due to migration but much more through transfers.

## **Transfer Methods – Gift/Sale**

CFEC breaks down and tracks methods of transfer four ways:

1. Gift – transfers recorded in this category may not be true unencumbered gifts or bequeaths. The number of transfers in this category may be inflated. Due to stricter prohibitions on permit leasing, some transfers categorized as gifts may actually be lease arrangements. Approximately 35-45% of Bristol Bay permits are acquired as gifts.
2. Sale – transfers involving an exchange of funds – 50-60% of all Bristol Bay permit acquisitions are sales
3. Trade – transfers involving non-monetary considerations. One percent or less of all Bristol Bay acquisitions are trades.
4. Other – transfers by any other means. Only 4-6% of Bristol Bay permits are acquired in this manner.



**Table 7 - Transfer Methods by Permit Type 1980-2005**

	<u>Gift</u>	<u>Sale</u>	<u>Trade</u>	<u>Other</u>
BB Drift	32.9%	60.6%	0.9%	5.6%
BB Set	45.3%	49.6%	1.0%	4.1%
BB Avg	39.1%	55.1%	1.0%	4.9%
Statewide	34.8%	59.9%	1.6%	3.7%

Source: CFEC #18 and RedPoint analysis

The table above looks at permit type and transfer methods (Gift, Sales, Trade or Other) and compares the frequency of transfer types in the Bay with the same transfer types statewide. Note that this data pertains to all Bristol Bay permits, not just those held by local residents.

Approximately 33% of Bristol Bay driftnet permits were transferred through gifts (including inheritance), nearly the same as the average for transfers of all limited entry permits across the state. Sales of driftnet permits is also matches the statewide incidence of transfers by sale.

For Bristol Bay setnet permits, however, the gift transfer rate is 20% higher than statewide gifting rates - and correspondingly 20% lower for transfers through the sales mechanism. Presumably, the higher rate of setnet transfers by gifting reflects these permits moving to family members.

**Table 8 - Transfer Acquisition Methods by Resident Type - 1980-2005**

	<u>Gift</u>	<u>Sale</u>	<u>Trade</u>	<u>Other</u>
Statewide ARL	49.4%	45.1%	1.5%	4.0%
Statewide non-ARL Avg	28.2%	66.4%	1.6%	4.0%

Source: CFEC #19 and RedPoint Analysis

The above table compares permit holder residency with transfer methods (gifts, sales, etc).

Alaska local permit holders (Statewide-ARL) received permits via gift at almost twice the average of all non-locally owned permits. From the sales perspective, statewide ARL holders transferred by sale about 1/3<sup>rd</sup> less often than non-local salmon permit holders.

These facts may be significant when looking for options to raise levels of BB-ARL permits. Encouraging transfers by gifting may be another option to investigate for this group of potential permit holders.

**Table 9 - Acquisition methods used in transfers from ARL to other resident types 1980-2005**

	<u>Gift</u>	<u>Sale</u>	<u>Trade</u>	<u>Other</u>
BB-ARL Driftnet	14.4%	82.3%	2.0%	1.3%
BB-ARL - Setnet	30.0%	65.4%	2.1%	2.5%
Statewide ARL	18.8%	77.3%	1.1%	0.0%

Source: CFEC #27 and RedPoint analysis.

The table above describes how local Bristol Bay permit holders transfer permits out of region to non-local recipients.

When local holders of driftnet permits transfer to non-local residents, 82% of the time they sell the permit. On a yearly basis this percentage is consistently high – generally ranging from about 75 to 100% with little or no discernable cycle. Gift transfers account for just 14% of all methods of transfer out of region by BB-ARL driftnet permits holders.

Setnet permits transfer to non-locals by gift at twice the frequency (30% -vs- 14%) of drift transfers. Setnet transfers by sales are correspondingly lower than transfers out of region by driftnet permits (65% -vs- 82%).

When permits transfer out of region, sales is the most common form of transaction. As seen in table 10, when permits are acquired by locals – gifts are the most common form of transaction.

## **Transferor – Transferee Relationships**

CFEC tracks types of permit holders transferring and receiving permits and four ways:

1. Friend/partner
2. Immediate family
3. Other relative
4. Other

The categories are reasonably self-explanatory. Transfers between people known to each other but unrelated are grouped as Friend/Partner. Transfers between unrelated and parties previously unknown to one another are called Other.

**Table 10 - Relationship between Transferors to Transferees by Permit Type 1980-2005**

	<u>Friends/ Partners</u>	<u>Immediate Family</u>	<u>Other Relative</u>	<u>Other</u>
BB Drift	16.5%	34.3%	4.5%	44.8%
BB Set	20.9%	39.3%	6.9%	32.9%
All Permits	19.2%	33.7%	4.9%	42.1%

Source: CFEC #16 and RedPoint Analysis

The above table compares permit types with types of permit recipients of a permit transfer.

The largest of these categories is transfers between Bristol Bay driftnet holders and unrelated parties. Approximately 45% of transfers by all resident types of Bristol Bay driftnet holders fall into this category. Notable is how closely transfers of Bristol Bay permits tracks comparable data for all limited entry permits. Bay fishermen transfer to new permit holders in much the same proportions as all limited entry permit holders.

**Table 11 - Transfer Relationships from BB-ARL to other Resident Types 1980-2005**

	<u>Friend/ Partner</u>	<u>Immediate Family</u>	<u>Other Relative</u>	<u>Other</u>
BB Drift - ARL	10.8%	12.8%	5.2%	71.1%
BB Set - ARL	19.1%	26.9%	6.0%	48.1%
All ARL Permits	17.2%	15.7%	4.7%	62.4%

Source: CFEC #26 and RedPoint Analysis

Table 11 shows the personal relationships between locally held transferors and the permit recipients (transferees).

Note the high percentage (71% -vs- 62%) of transfers between local Bristol Bay driftnet permit holders and unrelated parties. This type of transfer happens more often than for the average of all ARL transfers. Local drifters transfer to their immediate family slightly below the average ARL permit holder (13% -vs- 16%).

Comparing this data with table 10, locally held driftnet permits transfer to unrelated parties far more frequently than the average driftnet permit holder (71% -vs- 45%).

Local Bristol Bay setnetters, on the other hand transfer permits to immediate family at a higher than average rate (27% -vs- 16%) – but less often than the average S04t holder (27% -vs- 39%).

## **Transfers - Residency Type**

**Table 12 – Statewide ARL Transfers by Permit Type to Other Resident Types 1980-2005.**

	<u>From ARL</u>	<u>To ARL</u>	<u>Net ARL Shift</u>	<u>Initial ARL Level</u>	<u>% Initial Level</u>
BB Drift	413	169	-244	713	-34.2%
BB Set	365	203	-162	661	-24.5%
All Bristol Bay Permits	778	372	-406	1374	-29.5%
All Non BB Salmon	2231	2054	-177	4643	-3.8%
All Salmon Permits	3009	2426	-583	6017	-9.7%

Source: CFEC #25 and RedPoint Analysis

The data above compares transfers by permit type within the ARL category.

This data set shows that of the 413 driftnet transfers from BB-ARL's between 1980 to 2005, a net number of 169 (about 40%) were to other BB-ARLs. Conversely, about 60% (or 244 permits) of ARL transfers were made to non-locals. At the outset of the Limited Entry Permit system, ARL's held 713 driftnet permits. The loss of 244 driftnet permits is a 34% loss of locally held drift permits.

BB-ARL setnetters transferred to other BB-ARL's at a higher rate than drifters – about 56% of all transfers (compared to 40% for drifters). Accordingly the net loss of setnet permits from local resident holders is much lower – about 25% loss of ARL setnet permits since the first years of the Limited Entry system.

## **Financing Transfers**

CFEC breaks down transfer financing methods into 7 categories:

1. Self/other
2. Bank
3. DCCED
4. CFAB
5. Transferor
6. Processor
7. Combination

**Table 13 - Permit Financing by Permit Type 1980-2005**

	<u>Self/Other</u>	<u>Bank</u>	<u>DCCED</u>	<u>CFAB</u>	<u>Transferor</u>	<u>Processor</u>	<u>Combination</u>
BB Drift	55.8%	7.5%	18.6%	10.7%	1.8%	1.8%	4.0%
BB Set	65.0%	8.5%	10.9%	3.9%	8.5%	0.3%	2.8%
All Permits	63.3%	6.6%	16.3%	2.4%	7.4%	1.2%	2.8%

Source: CFEC #21 and RedPoint analysis

The table above shows how transfers of Bristol Bay permits are financed.

The majority of Bristol Bay permit transfers are self-financed. This is more often the case for setnetters (65%) than for driftnet permit holders (56%). Generally, the type of financing for either type of Bristol Bay permit is roughly comparable to averages for transfers of all permits.

Perhaps the most notable difference between transfers of Bristol Bay and all other permits is the relatively higher role of CFAB (11% -vs- 2.4%) in Bristol Bay transactions. But the rate of permit transfers financed by institutions seems to be falling. CFAB, in 2005, financed 2% of driftnet transfers and 2% of setnet transfers. All three sources of outside financing ; banks, the state and CFAB fell from a 25 year average of 37% for driftnet to 13%. Outside financing of setnet transfers declined from a 25 year average of 23% to 4%.

Another apparent data anomaly is the low rate of Bristol Bay driftnet transfers financed by the seller as compared to transfers by either setnet or the overall average of all permit transfers.

**Table 14 - Transfer Financing by Resident Type 1980-2005**

	<u>Self/Other</u>	<u>Bank</u>	<u>DCCED</u>	<u>CFAB</u>	<u>Transferor</u>	<u>Processor</u>	<u>Combination</u>
ARL	57.2%	6.1%	22.1%	3.7%	6.1%	1.3%	3.6%
All Resident Types	63.3%	6.6%	16.3%	2.4%	7.4%	1.2%	2.8%

Source: CFEC # 22 and RedPoint analysis

The above table shows the relationships between transfers of ARL permits and the financing of those permits.

The data show relatively small variations between how Bristol Bay ARL's finance transfers and the average for all permit holders. For the 25 years leading up to 2005, financial institutions (banks, the state and CFAB) financed 32% of all ARL transfers and 26% for all permits.

2005 data (not shown) indicates a significant change in transfer financing. At the end of that year, 72% of ARL and 86% of all permits were self financed. Combined, commercial banks, the state and CFAB financed just 17% of ARL transfers and only 13% of all permits. CFAB financed 3% of all ARL transfers.

In 1989 state liens on Bristol Bay drift permits peaked at 439 and has declined to 208 in 2004. This is further evidence of the shrinking role of financing in the transfer of permits.

In light of the significant trend towards self financing the strategy of using loans to assist Bristol Bay residents needs to be examined. Other strategies may be required to advantage residents to acquire permits.

### **Permit Brokers**

Our observations are based on preliminary information from surveying permit brokers and do not include data from CFEC we are waiting on.

The majority of brokers generally represent non Bristol Bay residents as sellers. Sometimes they represent Bristol Bay residents as permit sellers, but rarely do they represent a Bristol Bay resident as a permit buyer.

The only goal is price in the experience of the brokers and therefore brokers focus on getting the best price and selling to the highest bidder with little attention to area of residency or other factors.

Brokers are very knowledgeable about the many options to finance a permit transaction. They know Alaskan residents have the advantage of access to State and CFAB loan program, but this is for all Alaskans not just Bristol Bay residents. But, financing by the State and CFAC is sometimes slower for decision making unless the buyer has pre qualified at the correct buying price. Some sellers may opt for a cash

offer or the quickest terms rather than wait for the State of CFAB financing.

We conclude that several changing forces increase the difficulty for Bristol Bay residents to compete for permits:

- the majority of permits are owned outside the Bristol Bay watershed
- the location of nearly all brokers is outside the region
- the decline in the use of the State and CFAB programs
- the increased emphasis on immediate cash in transfers

### **Permit Stacking**

The new law and regulations allowing stacking of permits in Bristol Bay has only impacted the Nushagak fishing district so far. Due to the in river fisheries in Naknek/Kvichak and Egegik districts stacking has not been allowed. The current fisheries management plan calls for full district fishing in Naknek/Kvichak and Egegik districts and this will change the utilization of the stacking provisions. Since there are no registration requirements it is not possible to predict the utilization rate other than reports we received from processors and fishermen of a high level of interest. Separately CFEC reports that 44 fishermen own dual Bristol Bay drift permits, but the fishermen are not allowed to stack these permits.

ADF&G data is only available for the 2006 Season for the impact of stacking in the Nushagak district. Their data estimates that 160 of 560 vessels had the "D" for dual permits. No data exists on the actual utilization rates or the landing of the permit holders that stacked.

Based on information we gathered from processors, brokers and others we believe that most stacking is by a single fishermen that controls two permits by some means such as having the second permit in the possession of a relative or crewman.

Some brokers believe this has been a major driving force in the purchase of permits in the last few years and that this buying demand has driven the prices of permits up higher than it would be. Further many believe this is increasing the number of permits flowing away from Bristol Bay residents.

There are many important questions that cannot be answered with the lack of reporting requirements:

- Who is utilizing stacking – single fishermen? Or two fishermen partners?
- Is stacking giving an advantage to non Bristol Bay residents?
- Is stacking driving up demand for permits and prices?
- What percentage of the catch is flowing to vessels with stacked permits?
- If all districts are open to stacking how will this impact the fishery, permit transfers, prices and catch?

We recommend that the State put into place reporting or survey mechanisms to provide this information.

## **Next Steps**

### **Determine Target Number Of Permits**

We have provided worksheets by community for both drift and setnet permits. These show the change in permits holdings by community from 1975 to 2006. We have provided a range of scenarios to increase permit holdings from 5%-25% as a point of discussion.

To facilitate the develop of realistic and effective strategies for increasing permit holdings by Bristol Bay residents, targets need to be set:

- by community
- by gear type, and
- over a defined time period.

### **Recommendation on Stacking**

We recommend that the State put into place reporting or survey mechanisms to provide needed information on the impact of stacking. Questions that need to be answered include:

- Who is utilizing stacking – single fishermen? Or two fishermen partners?
- Is stacking giving an advantage to non Bristol Bay residents?



- Is stacking driving up demand for permits and prices?
- What percentage of the catch is flowing to vessels with stacked permits?
- If all districts are open to stacking how will this impact the fishery, permit transfers, prices and catch?

## **Additional Research**

1. A detailed data request has been submitted to CFEC. Major thrusts of those requests:
  - a. Document use of brokers by resident and permit type
  - b. Comparisons of residency type with capital investment and ex-vessel revenues.
  - c. More detailed data relating to how and why permits are leaving the area by community and gear type.
  - d. Incorporate crew data into impact analysis.
2. Put historical permit loss in context of total regional economy and develop economic multiplier on impact of permit loss (now only calculated on ex-vessel values only).
3. Results of that request will be incorporated into the current analysis and summarized.
4. Distil data into concise observations for developing program options to help reverse the outflow of permits
5. Determine whether village permits are flowing to the larger local communities. Add data about the intra-regional flow of setnet permits

# Table 15 - BB-ARL Driftnet Permit Goals Worksheet

Bristol Bay - ARL  
Drift Gillnet Permit Holder

City	1975	2006	Change in # Permits	% Permits Remaining	% Permits Lost	Ten Year Goal Scenarios				
						5%	10%	15%	20%	25%
King Salmon	17	18	1	106%	-6%	1	2	3	4	5
Naknek	60	35	-25	58%	42%	2	4	5	7	9
South Naknek	17	11	-6	65%	35%	1	1	2	2	3
Aleknagik	45	17	-28	38%	62%	1	2	3	3	4
Clarks Point	14	7	-7	50%	50%	0	1	1	1	2
Dillingham	205	131	-74	64%	36%	7	13	20	26	33
Ekuk	1	0	-1	0%	100%	0	0	0	0	0
Ekwok	17	3	-14	18%	82%	0	0	0	1	1
Koliganek	18	15	-3	83%	17%	1	2	2	3	4
Manokotak	41	27	-14	66%	34%	1	3	4	5	7
New Stuyahok	35	22	-13	63%	37%	1	2	3	4	6
Portage Creek	12	1	-11	8%	92%	0	0	0	0	0
Togiak	83	56	-27	67%	33%	3	6	8	11	14
Twin Hills	14	2	-12	14%	86%	0	0	0	0	1
Egegik	43	15	-28	35%	65%	1	2	2	3	4
Igiugig	6	2	-4	33%	67%	0	0	0	0	1
Iliamna	19	8	-11	42%	58%	0	1	1	2	2
Kokhanok	12	3	-9	25%	75%	0	0	0	1	1
Levelock	18	4	-14	22%	78%	0	0	1	1	1
Newhalen	7	8	1	114%	-14%	0	1	1	2	2
Nondalton	17	3	-14	18%	82%	0	0	0	1	1
Pedro Bay	8	0	-8	0%	100%	0	0	0	0	0
Pilot Point	24	8	-16	33%	67%	0	1	1	2	2
Port Alsworth	3	1	-2	33%	67%	0	0	0	0	0
Port Heiden	11	10	-1	91%	9%	1	1	2	2	3
Ugashik	7	2	-5	29%	71%	0	0	0	0	1
<b>Total Permits</b>	<b>754</b>	<b>409</b>	<b>-345</b>	<b>54%</b>	<b>46%</b>	<b>20</b>	<b>41</b>	<b>61</b>	<b>82</b>	<b>102</b>
Permits Per Year Avg						2	4	6	8	10

**Table 16 - BB-ARL Setnet Permit Goals Worksheet**

**Bristol Bay ARL  
Setnet Permits**

City			Change in	% Permits	% Permits	Ten Year Goal Scenarios				
	1975	2006	# Permits	Remaining	Lost	5%	10%	15%	20%	25%
King Salmon	27	23	-4	85%	15%	1	2	3	5	6
Naknek	67	72	5	107%	-7%	4	7	11	14	18
South Naknek	32	29	-3	91%	9%	1	3	4	6	7
Aleknagik	21	5	-16	24%	76%	0	1	1	1	1
Clarks Point	10	4	-6	40%	60%	0	0	1	1	1
Dillingham	102	91	-11	89%	11%	5	9	14	18	23
Ekuk	7	0	-7	0%	100%	0	0	0	0	0
Ekwok	1	0	-1	0%	100%	0	0	0	0	0
Koliganek	4	3	-1	75%	25%	0	0	0	1	1
Manokotak	27	37	10	137%	-37%	2	4	6	7	9
New Stuyahok	3	3	0	100%	0%	0	0	0	1	1
Portage Creek	5	0	-5	0%	100%	0	0	0	0	0
Togiak	25	59	34	236%	-136%	3	6	9	12	15
Twin Hills	0	1	1	#DIV/0!	#DIV/0!	0	0	0	0	0
Egegik	29	9	-20	31%	69%	0	1	1	2	2
Igiugig	0	0	0	#DIV/0!	#DIV/0!	0	0	0	0	0
Iliamna	16	7	-9	44%	56%	0	1	1	1	2
Kokhanok	1	3	2	300%	-200%	0	0	0	1	1
Levelock	8	1	-7	13%	88%	0	0	0	0	0
Newhalen	5	5	0	100%	0%	0	1	1	1	1
Nondalton	9	4	-5	44%	56%	0	0	1	1	1
Pedro Bay	2	3	1	150%	-50%	0	0	0	1	1
Pilot Point	15	6	-9	40%	60%	0	1	1	1	2
Port Alsworth	0	1	1	#DIV/0!	#DIV/0!	0	0	0	0	0
Port Heiden	4	3	-1	75%	25%	0	0	0	1	1
Ugashik	6	3	-3	50%	50%	0	0	0	1	1
<b>Total Permits</b>	<b>519</b>	<b>372</b>	<b>-147</b>	<b>72%</b>	<b>28%</b>	<b>19</b>	<b>37</b>	<b>56</b>	<b>74</b>	<b>93</b>
<b>Permits Per Year Avg</b>						<b>2</b>	<b>4</b>	<b>6</b>	<b>7</b>	<b>9</b>