

Written Comment regarding proposal #51 – Permit Stacking

By Mike Friccero

To the Chair and Board

This may be a good time to remind the Board members of the congestion and chaos that Bristol Bay Drift Fishermen encounter as they arrive on the fishing grounds and look for a spot to lay their net each opener. Prior to the Dual Permit regulations the grounds were very congested and as many as 700 vessels would congregate at each district perimeters, effectively blocking fish movement into the districts. This was a very disorderly harvest method. Currently we have fewer vessels and less gear, but we still need to move towards further fleet and gear reduction.

As we close the committees and head for deliberations, I would like to take this moment to add some information for your review.

- The Dual Permit opportunity is not terminated by the stacking proposal
- There will be a continued demand for both dual and stacked permits
- Permit values will drop as a response to lower ex vessel prices- see p43 of RSDA market report
- If stacking is approved it will raise demand and value of permits for a while
- This will probably offset the major permit devaluation that is about to occur
- In the long run the values will return to their normal relative value
- Drift fishing requires significant investment, and rewards it
- The processors are moving towards more frozen product forms – H&G
- Frozen product forms require chilled fish
- The fleet will increasingly be required to ice or RSW their catch
- There is not{and never will be} enough Ice in the region and most will need RSW
- Installing RSW in a gillnetter costs between 30-50K
- H&G frozen is our lowest value product form and trades as a commodity
- Farmed fish are gaining sales velocity worldwide and in the US
- Low prices are our reality for the foreseeable future
- There is no tool available to the BOF that prevents permit outmigration
- Local and State residents have access to the best financing in the Industry
- Permit stacking allows equity investment to increase during times of lower values

In the Processing sector the current successful operations have all invested heavily in the face of declining values during previous market disruption and there are three processors that are well positioned for 2016 and beyond. They have invested heavily and are reaping rewards from that investment. The processors that have not invested are doing badly and will be adding financial stress down to their fleets by way of lower prices and reduced capacity/limits

The same can be said of the Drift fisherman who has installed RSW and made improvements to his vessel. The base price is only about 75% of the total value of a fish that has been chilled, bled and handles carefully. The future holds increase reward for the premium fish and is very dismal for the dry fish.

We have already demonstrated that the Permit Stacking creates more opportunity for all participants. Any perception of reduced access is offset by the fact that the initial participation level of 1750 vessels is non sustainable. The benefits of the Dual Permit regulation can be furthered by the Stacking proposal as it relates to fleet and gear reduction. The least invested stakeholder will encounter less competition for fish and the hope remains for more fish in district each opener. This also may distribute fish to the upriver set nets more evenly.

The argument for stacking is not based on emotion or speculative reasoning, but on solid business formula and simple math. The argument against stacking drift permits is largely fear based speculation and rhetoric. It is creating a bunker mentality "us or them" even within the watershed. The BOF has the authority to create regulation to allow the further fleet and gear reduction as proposed, and also to reverse the regulation if there are unintended consequences in the next board cycle. The BOF could enact a sunset clause if they so choose and revisit the issues in the future.

There are two business models considered in this discussion. One is the status quo. In this model we do not encourage fleet and gear reduction and the associated opportunity for increased volume. Our permit values and equity will decline and we will return to a culture of attrition and latency during our upcoming market disruption. This model also creates a fleet/gear reduction and provides opportunity to those who remain. The problem with this model is that it represents economic failure for our industry. It is the least robust management plan available to us. I call this one the "Passive Aggressive Model"

The other model is represented by the permit stacking proposal. In this model we create more opportunity for all participants by allowing those who have access to funding to further consolidate the fleet and as a by-product, all users benefit from the gear reduction this represents. I call this plan the "Risk/Reward Model" Alaska residents have better access to loans for fishing permits and this may help return permits to Alaska ownership.

Interestingly, our industry is at a critical moment that will require increased investment from the fleet, and in turn we will re-establish our position in the market place. Our processors are working hard to rationalize their business plans and several are looking at some hard choices. If we are to succeed as an industry during the lean time ahead, we should increase opportunity in a manner that sustains a robust business model. The adjacent residents will benefit more from success than collapse