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

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our October 1999 and June 2000 reports on the costs and effectiveness of recent buyback programs for specific U.S. commercial fisheries.[1] As the Subcommittee is well aware, fish populations in many commercial fisheries are declining, resulting in a growing imbalance between the number of vessels in fishing fleets and the number of fish available to catch. Federally funded fishery buyback programs are one tool available for managers to bring the number of vessels and the number of fish back into balance. In response to this growing imbalance, the federal government has provided $140 million since 1995 to purchase fishing permits, fishing vessels, and related gear from fishermen, thereby reducing the capacity of fishermen to harvest fish. Generally, the government designed these buybacks to achieve multiple goals, such as reducing the capacity to harvest fish, providing economic assistance to fishermen, and improving the conservation of fish. Our two reports focused on the principal buyback programs that have taken place in U.S. commercial fishing waters since 1976.

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

!If buyback programs are not accompanied by other measures that reduce incentives to reenter a fishery, capacity reductions resulting from buybacks will erode. Unless a buyback program prevents it, fishermen can use previously inactive vessels or permits and reenter the buyback fishery.

!Buyback programs, by themselves, do not address a root cause of overfishing, which is called the Arace to fish.@ In most fisheries, fishermen have an incentive to increase their fishing capacity to catch fish before someone else does or use their existing capacity more intensely.

!Plans for evaluating the results of buybacks should also be considered when these programs are being designed. Measuring and evaluating results can identify important lessons that can improve the effectiveness of future buybacks. The federal government has done little to evaluate whether recent buyback programs have achieved their intended benefits.

Background

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

Commercial fishing is a major industry in this country. In 1998, commercial fishing vessels in U.S. marine waters landed 9.2 billion pounds of commercial fish in domestic ports, with an estimated value of $3.1 billion. However, also in 1998, the federal

government reported that of the 300 species of fish for which it had data, 100 were either overfished or approaching an overfished condition.

U.S. Buyback Programs= Experiences

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

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

!The most costly buyback, involving Bering Sea pollock, began in 1998 under the authority of the American Fisheries Act of that year. The act required NMFS to purchase 9 of 30 factory trawlers[2] working in the fishery and their associated fishing permits. The total cost of the buyback was $90.2 million, with $15.2 million from federally appropriated funds and the remaining $75 million from a federal loan to Alaskan pollock fishermen to buy large fishing vessels. The loan is repayable over 30 years based on a fee tied to the amount of pollock caught by those left in the fishery.

!The next most expensive buyback, involving New England groundfish, took place in two phases between June 1995 and May 1998 under the authority of the Emergency Supplemental Appropriations Act of 1994 and the Interjurisdictional Fisheries Act. NMFS spent $24.4 million to remove 79 fishing vessels, the fishing permits that allowed these vessels to catch groundfish, and all other federal fishing permits associated with these vessels. NMFS also required that the vessels it purchased be scrapped, sunk, or transferred to activities other than fishing.

The longest running buyback effort began in 1976 and involves five separate programs since 1976 for reducing the number of salmon fishing vessels and fishing permits in the Northwest. Three of the programs, costing a total of $20.5 million, mostly in federal funds, were in effect between 1976 and 1986 under the Interjurisdictional Fisheries Act. The remaining two programs, costing a total of $14 million, were implemented from 1995 through 1998 under this act and the Magnuson-Stevens Fishery Conservation and Management Act. All five of the programs were administered by the state of Washington, which purchased state fishing permits. One of the programs also purchased vessels, while another also paid some vessel owners not to commercially fish for salmon for 10 years.

!Other buybacks have involved efforts to reduce the number of Texas state shrimp fishing permits in the Gulf of Mexico and to eliminate commercial crab fishing in some parts of the Glacier Bay National Park and Preserve in Alaska. These buybacks cost a total of about $10.4 million, mostly in federal funds.

Lessons Learned From Recent Buybacks

We believe recent U.S. experience demonstrates three important lessons that should be factored into the design of any future buyback program. The first lesson is that, unless a buyback is designed to restrict reentry of fishermen, gains from a buyback will erode. Our June 2000 report examined the capacity gains from buybacks in three diverse fisheriesCNew England groundfish, Bering Sea pollock, and Washington State salmon. These buybacks initially removed from 10 to 24 percent of each fishery=s respective capacity. However, the prospects for maintaining these gains is different for each of these fisheries, largely because of each buyback=s design. For example, while the New England buyback initially eliminated vessels from the fishery, additional vessels subsequently became active because the buyback did not take steps to prevent fishermen from using previously inactive vessels and permits. We found that the $24.4 million New England buyback removed 79 vessels; however, because of the number of unused fishing permits in the fishery, 62 previously inactive vessels began catching groundfish after the buyback. These fishermen have begun to erode the capacity reductions made by the buyback, replacing fishing capacity by as much as two-thirds of that purchased through the buyback. In contrast, capacity removed through the Bering Sea program has not returned, in part, because the buyback legislation prevented the entry of

additional fishing vessels. With respect to the recent Washington State programs, while no steps were taken to prevent additional fishing vessels from entering the fishery after the buyback, significant declines in salmon stocks have made this impractical and fishing capacity has declined. In some cases, however, this capacity has shifted to fisheries in other states.

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

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

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

Actions Recommended in Our Previous Report

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

!design future buyback programs to (1) restrict buyback participants from entering a fishery that has fishing capacity problems ; (2) restrict the use of previously unused fishing vessels and permits in a buyback fishery with such problems; and (3) identify mechanisms to minimize the incentives to increase fishing capacity in a buyback fishery;

!develop performance measures for buybacks that relate to program goals and broader legislative goals, such as the need to better manage fishing capacity and sustain fish stocks; and

!evaluate the results of future buyback programs against the performance measures.

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

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

Fisheries: Information on Federally Funded Buyback Programs (GAO/RCED-00-8R, Oct. 20, 1999) and *Commercial Fisheries: Entry of Fishermen f Buyback Programs* (GAO/RCED-00-120, June 14, 2000). A fishery is one or more stock (defined as one species or several species in a geographical aged as a group.

wler catches fish by dragging a large net through the water and then processes the fish onboard.