

Statement of Brad Pettinger
Director, Oregon Trawl Commission
House Natural Resources Committee Hearing on
HR 2646 Revitalizing the Economy of Fisheries in the Pacific Act (REFI Pacific Act)
April 3, 2014

Mr. Chairman, Members of the Committee, my name is Brad Pettinger and I am the Director of the Oregon Trawl Commission, an Oregon State commodity commission that represents every trawl permit holder in the State of Oregon. Our members participate in the Oregon pink shrimp fishery as well as the federally managed groundfish fishery off the west coast. Together with other fishery and environmental organizations from the three west coast states, the Oregon Trawl Commission has been helping to lead a unified effort to refinance the trawl buyback loan for the last several years. Virtually every groundfish trawl permit holder on the west coast is represented by this coalition and we are all strongly supportive of this effort. I would like to thank Congresswoman Herrera-Beutler as well as Congressman DeFazio and the other co-sponsors of the bill for their leadership on this critically important issue for the west coast trawl groundfish industry.

Background

In 2000 the Secretary of Commerce declared a commercial fishery failure in the West Coast groundfish fishery due to low stock abundance, a severely overcapitalized fleet and concerns about several species of rockfish, which had been overfished historically by foreign fleets. The Pacific Fishery Management Council acknowledged the overcapacity problem by identifying “capacity reduction” as its number one priority in its Groundfish Strategic Plan. When the Council was unable to achieve a workable solution to reduce capacity, the industry took it upon themselves to approach Congress with a plan to reduce capacity through an industry-funded buyback loan.

Capacity Reduction Program

Section 212 of the Department of Commerce and Related Agencies Appropriations Act, 2003 (title II of division B of Public Law 108-7; 117 Stat. 80) was enacted to establish a Pacific Coast groundfish fishing capacity reduction program, also known as a buyback program, to remove excess fishing capacity. In 2003, Congress authorized the \$35,700,000 buyback loan, creating the Pacific coast groundfish fishing capacity reduction program through the National Marine Fisheries Service finance program with a term of 30 years. The interest rate of the buyback loan was fixed at 6.97% and is paid back based on an annual ex-vessel landings fee of 5% (this is off the gross revenue that a fishermen is paid by the fish buyer for his fish).

The buyback program resulted in 91 trawl groundfish permits being “bought out” of the fishery. The 91 permits were associated with approximately 46% of the groundfish trawl landings at that time. In addition, 36 crab permits and 85 shrimp permits that were associated with the bought out trawl permits were also retired.

Buyback Loan Fees & Accrued Interest

Unfortunately, once the law was passed, there was a delay in the promulgation of the regulations setting up the process for fee collection. This delay resulted in \$4,234,730 in accrued interest before the fleet began paying back on the loan. This \$4.23 million was tacked onto the loan through no fault of the industry members. Eighteen months passed between when the groundfish capacity reduction program was initiated in 2003 and when the fee collection procedures were established and implemented in 2005. Over the last eight years the industry has struggled to keep pace with the interest and principal obligation of the loan due to previously declining fishery values and the added interest that was tacked on at the beginning of the loan. Until recently we had made no progress on paying down the principal.

In fact, as of February 14, 2014, the groundfish fishery had paid \$20,746,810, but still owed \$27,664,619 – which is only \$764,099 less than what was originally borrowed (\$28,428,718). See Attachment 1.

If regulations to collect the payment fees were implemented in a timely manner when the capacity program was established in 2003, calculations completed by the Fishermen's Marketing Association based on PacFIN data (compiled by Pacific States Marine Fisheries Commission) show that the groundfish fishery would owe \$16,942,890 today versus the actual balance of \$27,664,619 – a difference of over \$10.5 million dollars! See Attachment 2.

The Current Trawl Groundfish Fishery

In 2011 the management of the west coast groundfish fishery changed dramatically. A trawl individual fishing quota program was implemented. An individual fishing quota program is a type of catch-share program where individual accountability is a cornerstone of management. The trawl IQ program includes 100% human observer coverage in order to document all catch and/or discard. Since the program's implementation there has been a dramatic reduction in bycatch and discards and individual flexibility and accountability has increased.

The majority of the cost of observers is funded by the industry. In 2014 there is a government reimbursement of less than 50% of the daily cost which can run between \$425-\$475 per day. This reimbursement is set to run out at the end of 2014 and beginning in 2015 the industry may be responsible for paying 100% of the observer costs. To be clear, a fisherman cannot leave the dock without an observer and in the future he will be responsible for the entire cost of the observer coverage. In addition to the cost of observers, the industry is now paying an annual "cost recovery fee" to the National Marine Fisheries Service of 3% of the annual ex-vessel value of the fish they land. The cost recovery program was implemented by NMFS in January of 2014. The industry also pays state ad-valorem taxes (landings taxes) and these vary by state. All of these fees plus the annual loan payment of 5% will equate to approximately 18% of a fishing business's gross revenue on an annual basis. This is simply not sustainable, especially for smaller operations.

At the same time that we are seeing successes in the fishery under the new management regime, there are still several improvements yet to be implemented within the program, which will increase the economic value of the fishery. In the three years since implementation, less than 1/3 of the available total allowable catch (TAC) of non-whiting groundfish stocks has been brought to shore. The TACs are what can be sustainably harvested from the fishery based on the current biological status of each stock. In other words, we are leaving 2/3 of the fish that could be sustainably harvested in the water each year. The reasons for this vary, but a lot of the fault rests on antiquated regulations enacted before the trawl IQ program was implemented. Many of these regulations are still on the books and upwards of 30 “trawl trailing amendments” are in the works to address both these redundant and irrelevant regulations as well as unintended consequences that have occurred under the new management system. It will be several years before the suite of trawl trailing amendments is completed and implemented; in the meantime it is more difficult for harvesters to achieve higher catch limits and generate more income from the fishery so they can afford the costs noted above.

We cannot control management costs and we have been unsuccessful in accelerating regulatory relief. Thus, there is an urgent need to refinance the current buyback loan. The industry is not seeking full forgiveness as fisheries in other parts of the country have done (successfully in some cases) but is seeking to take advantage of better interest rates and loan terms in order to give the industry a fighting chance to pay the loan back while keeping their businesses viable in light of all the other costs we currently face.

HR 2646

The current legislation seeks to refinance the existing loan. The terms of the loan include an extension from 30 years to 45 years, a reduction in the interest rate to reflect the current treasury rate (currently at 3.60%) and a cap on the annual loan payment fee of no more than 3% (versus the current 5%). The legislation has bipartisan support in both houses of Congress, as well as support from affected permit holders in all three west coast states. It would ensure that the American taxpayers receive a return on the investment they have made in our commercial fishing industry and that the buyback loan will be repaid. Some measure of economic relief will be provided to an industry that provides healthy food to consumers and jobs to our coastal communities.

Let me emphasize that we are not some huge corporation asking for a federal bailout nor are we trying to walk away from a loan that was made to get us through difficult times. We undertook an obligation in order to increase our productivity and benefit the nation and we intend to live up to that obligation. All that we ask is an opportunity to do so under vastly changed economic conditions and more favorable market terms for borrowing long-term debt from the government. We ask that the Committee move this bill forward as quickly as possible.

Thank you. I will be happy to answer any questions.

Pacific Coast Groundfish Buyback Loan Repayment Status

Details Updated: 2/14/2014

| SubLoan | Loan Amount | % of Total Loan | Current Principal Balance | Current Interest Outstanding | % of Principal Remaining | Total Principal and Interest Outstanding | Total Receipts |
|--------------------------------|------------------------|-----------------|---------------------------|------------------------------|--------------------------|--|------------------------|
| Limited-Entry Trawl Groundfish | \$28,428,718.88 | 80% | \$27,514,456.31 | \$150,163.38 | 96.8% | \$27,664,619.69 | \$20,746,810.92 |
| California Dungeness Crab | \$2,334,334.20 | 7% | \$0.00 | \$0.00 | 0% | \$0.00 | \$3,447,466.37 |
| Oregon Pink Shrimp | \$2,228,844.53 | 6% | \$0.00 | \$0.00 | 0% | \$0.00 | \$3,253,339.26 |
| Oregon Coastal Dungeness Crab | \$1,367,545.28 | 4% | \$252,639.02 | \$385.95 | 18% | \$253,024.97 | \$1,856,255.25 |
| California Pink Shrimp | \$674,202.18 | 2% | \$486,155.93 | \$8,540.89 | 72% | \$494,696.82 | \$645,839.71 |
| Washington Dungeness Crab | \$369,425.93 | 1% | \$189,289.01 | \$253.02 | 51% | \$189,542.03 | \$409,925.02 |
| Washington Pink Shrimp | \$259,399.63 | 1% | \$0.00 | \$0.00 | 0% | \$0.00 | \$402,592.36 |
| | | | | | | | |
| Total: | \$35,662,470.63 | 100% | \$28,442,540.27 | \$159,343.24 | 80% | \$28,601,883.51 | \$30,762,228.89 |

Comparison of projected loan repayment

