



United States General Accounting Office
Washington, DC 20548

Resources, Community, and
Economic Development Division

B-293711

October 20, 1999

The Honorable Don Young
Chairman
The Honorable George Miller
Ranking Minority Member
Committee on Resources
House of Representatives

Subject: Commercial Fisheries: Information on Federally Funded Buyback Programs

Federally funded fishery¹ buyback programs are one tool available for managers of commercial fishing resources to reduce excess fishing capacity by purchasing from fishermen their fishing permits and, in some cases, their fishing vessels and related gear. Excess capacity can result from several factors, including legal decisions that may reduce the number of fish that can be caught, ecological factors such as changes in habitat that may also reduce the number of fish, or economic considerations such as the demand for fish. Excess capacity can lead to economic hardship for fishermen and to increased pressure on managers to allow catch limits above what the fisheries can support.

As agreed with your offices, we are providing you with information on (1) the number, objectives, and key features of federally funded buyback programs since 1976; (2) the costs, sources of funds, and results of these programs; and (3) the key features and estimated costs of proposed federally funded buyback programs. On September 23, 1999, we briefed your staffs on the results of our review and agreed to provide you with this report summarizing our findings. A copy of our September 23, 1999, briefing is included as enclosure I.

The management of commercial fishing waters in the United States is divided among coastal states and the federal government. Coastal states manage fishing resources within 3 nautical miles of their borders. The federal government manages fishing resources extending from the state limit to 200 nautical miles from the U.S. coast. In 1996, there were 80,394 commercial fishing vessels and boats in U.S. marine waters. These boats landed 9.6 billion pounds of commercial fish at domestic ports, with an estimated value of \$3.5 billion. Commercial fish include cod, flounder, and other groundfish; shrimp, crab, and other shellfish; and swordfish, tuna, and other highly migratory fish. In 1998, the federal government reported that for the 300 species for which it has data, 100 of the species were either overfished or approaching an overfished condition.

Number, Objectives, and Key Features of Past or Current Buyback Programs

Since 1976, the federal government has authorized 10 buyback programs under a variety of laws, including the Interjurisdictional Fisheries Act of 1986, the Sustainable Fisheries Act of 1996, and the American Fisheries Act of 1998. The programs have generally focused on buying back federal or state fishing permits, and a few have included buying vessels or

¹A fishery is one or more stock (defined as one species or several species in a geographical area) of fish managed as a group.

placing restrictions on their use. The programs also have attempted to provide economic assistance to fishermen leaving the industry, to increase the profitability of fishermen remaining in the fishery, or to provide for the conservation of the fish stocks.

The focus and basic features of the buyback programs are as follows:

- Pacific Northwest salmon. There have been five separate programs for salmon since 1976, although none of the programs is currently active. All five of the programs purchased state fishing permits. One of these programs also purchased vessels, while another also paid a portion of a vessel's value to the owner in exchange for the owner's agreement not to return to commercial salmon fishing for 10 years. The state of Washington administered all five programs. Most of the vessels purchased were resold with restrictions. Others sunk in storage before they could be sold.
- New England groundfish. There have been two separate programs since 1995 for these groundfish, neither of which is currently active. Both programs purchased federal fishing permits and vessels. The National Marine Fisheries Service (Fisheries Service) in the Department of Commerce's National Oceanic and Atmospheric Administration, which administered both programs, required that the purchased vessels be scrapped, sunk, or transferred to activities other than fishing.
- Texas shrimp. The program started in 1996 and is currently active. The program is purchasing state shrimp fishing permits and is administered by the state of Texas.
- Bering Sea groundfish. The program, administered by the Fisheries Service, began in 1998 and is currently active. The program has purchased nine large vessels, together with the federal fishing permits for Bering Sea groundfish associated with the vessels. The vessels were used primarily for catching pollock. Eight of the vessels are being scrapped. The remaining vessel will be prohibited from fishing in U.S. commercial fishing waters.
- Glacier Bay (Alaska) Dungeness crab. The program began in 1999, is currently active, and is part of a larger effort to eliminate commercial fishing in some parts of Glacier Bay National Park and Preserve. The program will purchase state fishing permits and may also purchase one fishing vessel and related gear from participating fishermen. Purchased vessels and gear may be sold by the General Services Administration. However, the National Park Service, which is administering the program, has not yet determined how it will dispose of these items. Program officials expected to begin making payments to qualifying fishermen in September 1999.

Costs, Sources of Funds, and Results of Past or Current Buyback Programs

When completed, the 10 buyback programs will have cost a total of about \$160 million. About \$140 million (87 percent) of the costs will have been incurred since 1995, an indication of the increasing use of buyback programs. About \$20 million of the costs were incurred in the late 1970s through the mid-1980s for programs to assist fishermen in the Northwest salmon industry.

Of the total costs, about \$80 million is funded through federal grants for economic assistance and relief to fishermen adversely affected by closures of fishing areas or natural disasters that reduced fish stocks. Most of the remaining costs are funded by a \$75 million federal loan provided to Bering Sea groundfish fishermen to buy large fishing vessels specified by the American Fisheries Act. The loan is repayable over 30 years based on a fee tied to the

pollock caught by those left in the fishery. The remaining \$5 million of the cost is funded by a combination of state and private funding.

Taken together, the buyback programs have purchased over 3,000 fishing permits and have purchased or restricted the use of about 600 vessels.² Individually, the size and cost of the programs have varied widely. For example, the Texas shrimp program spent about \$1.6 million to purchase several hundred fishing permits, while the Bering Sea groundfish program spent \$90.2 million (a \$75 million federal loan and \$15.2 million in federal grants) to purchase nine vessels and fishing permits.

Key Features and Costs of Proposed Buyback Programs

Six additional buyback programs have been proposed by industry groups or the state of Washington. Preliminary cost estimates prepared by the sponsors of these proposals exist for five of the six programs. If implemented, these five programs could cost from about \$150 million to \$220 million. One of the programs, for Bering Sea/Aleutian Islands crab (estimated to cost from \$45 million to \$60 million), would be financed by a federal loan to purchase federal fishing permits and would be administered by the Fisheries Service. A second program would involve a federal grant for about \$32 million to purchase salmon fishing licenses associated with June 1999 changes to an existing treaty with Canada. The state of Washington plans to administer the program. Three proposals, involving Atlantic swordfish, scallop, and shark, could cost in total from \$70 million to \$130 million. The financing, administration, and other features of these programs are still being determined. A Pacific groundfish proposal was submitted to the Fisheries Service but is now being reconsidered by an industry group. No cost estimate is available for the proposed program.

Agency Comments

We provided the Department of Commerce with a draft of this report for review and comment. The Department's National Oceanic and Atmospheric Administration provided technical comments that clarified the number of species that are overfished, the status of selected proposed buyback programs, and the steps that the National Oceanic and Atmospheric Administration is taking to manage buyback programs (see enc. II). We incorporated the comments on overfished species and proposed buyback programs, but we did not include information on the management activities because our report does not evaluate the management of buyback programs.

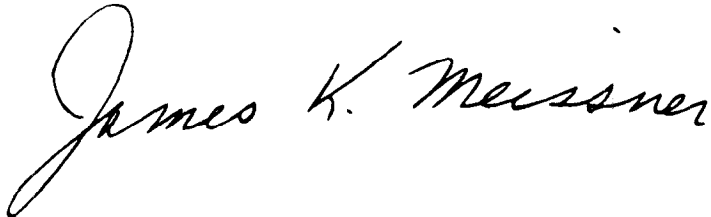
To develop the information for this report, we reviewed studies and data on buyback programs prepared by the Congressional Research Service, the Fisheries Service, and selected state agencies and university researchers. In addition, we interviewed officials from the Congressional Research Service, the Fisheries Service, the states of Washington and Texas, fishery management councils, and industry representatives. The interviews took place in the Washington, D.C., area; Gloucester and Woods Hole, Massachusetts; Seattle and Olympia, Washington; and Juneau and Gustavus, Alaska.

We performed our review from July 1999 through September 1999 in accordance with generally accepted government auditing standards.

²A total of 3,365 fishing permits have been purchased. The total includes an additional 458 permits purchased under the New England groundfish programs for other fisheries, including summer flounder, squid, mackerel, and scallop. These additional permits were purchased because the programs obtained all of the fishing permits associated with the vessels purchased.

Copies of this report are being sent to the Honorable William M. Daley, the Secretary of Commerce; Dr. James Bake, Director, the National Oceanic and Atmospheric Administration; and Penny Dalton, Assistant Administrator of the Fisheries Service. We will also make copies available to others on request.

If you or your staff have any questions or need additional information, please call me at (206) 287-4800. Key contributors to this report include Kathleen Gilhooly, Robert Lilly, Timothy Minelli, and William Swick.

A handwritten signature in black ink that reads "James K. Meissner". The signature is written in a cursive style with a large, looping initial "J".

James K. Meissner
Associate Director, Energy,
Resources, and Science Issues

Enclosures - 2

GAO Resources, Community, and
Economic Development Division

**Federally Funded Buyback
Programs for Commercial
Fisheries**

Briefing for the House Committee on
Resources
September 23, 1999

GAO Background

Overcapacity (excess fishing vessels, permits, and related gear) can result from legal, ecological, or economic factors.

Programs that buy back fishing vessels and fishing permits attempt to reduce overcapacity.

Buyback programs have been authorized or proposed under a variety of laws, including

- Interjurisdictional Fisheries Act,
 - Sustainable Fisheries Act, and
 - American Fisheries Act.
-

GAO Objectives

- What are the number, objectives, and key features of federally funded buyback programs since 1976?
 - What are the costs, sources of funds, and results of these programs?
 - What are the key features and estimated costs of proposed federally funded buyback programs?
-

GAO Overview

Ten buyback programs since 1976:

- Objective mainly to reduce fishing overcapacity,
- All programs bought fishing permits, six also bought vessels or vessel restrictions.

Funding mostly from federal grants and a loan:

- \$160 million to date (\$140 million since 1995),
- Over 3,000 permits bought, and
- About 600 vessels or vessel restrictions bought.

Six proposals:

- Focus so far is on buying back permits.
 - Total cost about \$150 million to \$220 million.
-

GAO Buyback Programs: Number

Ten programs since 1976 address

- Pacific Northwest salmon: 5 (none active);
- New England groundfish: 2 (none active);
- Texas shrimp, Bering Sea pollock, Glacier Bay Dungeness crab: 1 each (all active).

GAO Buyback Programs: Objectives

Reduction of overcapacity, with the following additional objectives:

- Short-term economic assistance to fishermen leaving the industry,
 - Increased profitability for the remaining fishermen, and
 - Conservation of fish stocks.
-

GAO Buyback Programs: Key Features

Feature	Number of programs
Scope	
Bought state fishing permits	7
Bought vessels or vessel restrictions	6
Bought federal fishing permits	3
Eligibility	
Hold a permit or be eligible to do so	10
Have significant participation in the industry	4
Impacted by a court case or other factors	3
Other	3
Participant selection	
Ratio of bid to amount of catch or income lost	4
Lowest bid or order of receipt of application	4
Catch information or time holding permit	2
Other	2
Provisions for restricting re-entry to fishing	
Re-entry of individuals allowed if permits obtained	9
Re-entry of vessels banned or temporarily banned	6
Re-entry of individuals temporarily banned	2
Administration	
State of Washington	5
National Marine Fisheries Service	3
National Park Service	1
State of Texas	1

GAO Buyback Programs: Amounts and Sources of Funds

Program	Source of funds (in millions)				Total
	Federal grant	Federal loan	State	Other	
Washington salmon (1976 to 1981) All 3 rounds	\$4.5			\$2.5	\$7.0
Washington salmon (1981 to 1986)	12.8				12.8
Oregon salmon (1983 to 1986)	0.7				0.7
Washington salmon (1995 to 1997) Both rounds	9.3				9.3
Washington salmon (1998) Both rounds	3.5		\$1.2		4.7
New England groundfish pilot (1995 to 1996)	1.9				1.9
New England groundfish (1996 to 1998)	23.0				23.0
Texas shrimp ^a (1996 to present)	1.4		0.8	0.2	2.4
Bering Sea pollock (1998 to present)	15.2	\$75.0			90.2
Glacier Bay Dungeness crab ^b (1999 to present)	8.0				8.0
Total	\$80.3	\$75.0	\$2.0	\$2.7	\$160.0

^aAccording to the management director for the Texas program, as of September 1, 1999, the state had spent about \$1.6 million on its shrimp buyback program. About \$70,000 of a \$1.4 million federal grant for the program remained unspent. The program has spent \$264,000 in state funds and \$30,000 in private funds on the buyback. The program has about \$540,000 available in state funds to continue buyback efforts and will continue to receive about \$170,000 annually from state fishing license fees. About \$125,000 remains available from private sources to fund buyback efforts.

^bAs of September 1, 1999, the Glacier Bay Dungeness Crab Commercial Compensation Program had not provided compensation to Dungeness crab fishermen. The National Park Service expects to begin providing compensation to fishermen by the end of September. The \$8 million cited in the table refers to funds appropriated for the program.

GAO Programs to Buy Back Permits Only: Results and Costs

Dollars in thousands

Program	Number of permits purchased	Buyback cost	Administrative cost	Total cost
Washington salmon (1976 to 1981) Round 3 of 3	198	\$967	\$33	\$1,000
Oregon salmon (1983 to 1986)	133	\$645	\$71	\$716
Washington salmon (1995 to 1997) Both rounds	438	\$8,957	\$242	\$9,199
Washington salmon (1998) Both rounds	391	\$4,586	\$83	\$4,669
Texas shrimp ^a (1996 to present)	369	\$1,622	\$6	\$1,628

^aCost figures are as of September 1, 1999.

GAO Programs to Buy Back Permits and Vessels: Results and Costs

Dollars in thousands

Program	Number of permits purchased	Number of vessels bought or restricted	Buyback cost	Administrative cost	Total cost
Washington salmon (1976 to 1981) Rounds 1 and 2 of 3	231	252	\$5,165	\$683	\$5,848
Washington salmon (1981 to 1986)	1,059	257	\$12,089	\$696	\$12,785
New England groundfish pilot (1995 to 1996)	11 ^a	11	\$1,890	^b	\$1,890
New England groundfish (1996 to 1998)	68 ^a	68	\$22,500	\$500	\$23,000
Bering Sea pollock (1998 to present)	9	9	\$90,000	\$200	\$90,200

^aIn addition to the groundfish permits purchased, these programs also acquired 458 permits for other fisheries. The permits were associated with the vessels purchased.

^bAdministrative cost was not available.

GAO Proposed Buyback Programs: Number and Scope

- Six additional programs have been proposed. Costs are subject to change.

Proposed program	Estimated costs (millions)
Bering Sea/Aleutian Islands crab	\$45 to \$60
Pacific salmon	\$32
Atlantic swordfish	\$18 to \$20
Atlantic scallop	\$40 to \$60
Atlantic shark	\$12 to \$50
Pacific groundfish	Not available

GAO Examples of Proposed Buyback Programs: Key Features

Feature*	Program	
	Bering Sea/Aleutian Islands Crab	Pacific Salmon
Funding mechanism	20-year federal loan repayable by industry	Federal grant supplemented by Washington State funds
Eligibility	All permit holders	Puget Sound and coastal fishermen affected by treaty
Method of selection	Ratio of asking price to catch, or lowest asking price for permit	Ranked based on historical catch information
Re-entry restrictions	Vessels surrender future fishing rights	Participants restricted from re-entry for 10 years
Administration	Fisheries Service	Washington State

*Features are based on latest business plan or proposed rule submitted to the National Marine Fisheries Service and are subject to change.

GAO Scope and Methodology

Reviewed studies by Fisheries Service overcapacity task force, Congressional Research Service, and university researchers.

Analyzed reports on buyback programs prepared by federal and state agencies.

Interviewed officials in Fisheries Service, National Park Service, and state agencies. Met with fishery management council and industry representatives proposing new programs.

Comments From the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
CHIEF FINANCIAL OFFICER/CHIEF ADMINISTRATIVE OFFICER

OCT 7 1999

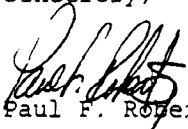
Mr. James K. Meissner
Associate Director
Energy, Resources and Science Issues
Resources, Community and Economic
Development Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Meissner:

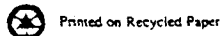
I am pleased to enclose the Department of Commerce's comments on the General Accounting Office's draft report entitled, "Commercial Fisheries: Information on Federally Funded Buyback Programs."

These comments were prepared in accordance with the Office of Management and Budget Circular A-50.

Sincerely,


Paul F. Roberts

Enclosure



COMMENTS

Draft Report on Commercial Fisheries: Information on Federally Funded Buyback Programs (GAO/RCED-00-08R)

Now on p. 1. **GAO Report: Page 2, top of the page**

"In 1995, the federal government classified 56 of the 201 federally managed fish stocks as over fished."

NOAA Response:

The National Marine Fisheries Service (NMFS) recommends that a better source for this data is the "Report to Congress, Status of the Fisheries of the United States," October 1998, published by NMFS.

In 1998, based on criteria specified in Magnuson-Stevens Act, the NMFS in its Report to Congress on the "Status of Fisheries of the United States," classified 90 species as "overfished," 200 species "not overfished," 10 species "approaching an overfished condition," and for 544 species, the status with respect to overfishing was "unknown."

Now on p. 15. **GAO Report: Page 11 Proposed Buyback Programs: Number and Scope**

NOAA Response:

Two industry funded buyback proposals have been submitted to the NMFS: Bering Sea/Aleutian Islands crab fishery and the Pacific groundfish fishery. The industry is reconsidering both proposals due to lower than anticipated Total Allowable Catch projections from NMFS. Estimated loan amounts of the current proposals are \$50 to \$85 million.

Four proposals are at various stages of development by the industry: swordfish, shark, scallop and Pacific salmon. Estimated loans and/or appropriated costs of these proposals (there are no estimates for shark at this time) are \$92 million.

NOAA Comments:

The 1996 Sustainable Fisheries Act [SFA (Public Law 104-297)] which re-authorized the Magnuson-Stevens Fishery Conservation and Management Act authorized NMFS to administer appropriation funded or industry funded buyback programs. NMFS published proposed framework regulations for buybacks on February 11, 1999. The comment period ended April 12, 1999, and a final rule is under development.

Buybacks are one of the fisheries management tools to control fishing capacity. Last year, NOAA elected to explicitly address overcapacity in its strategic planning process. Towards that end, NOAA established a performance measure under the element "Build Sustainable Fisheries" to reduce the number of over capitalized fisheries by 15% by 2004. A NMFS Task Force has been formed to develop definitions, measures, and categories of capacity in commercial and recreational capture fisheries.

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