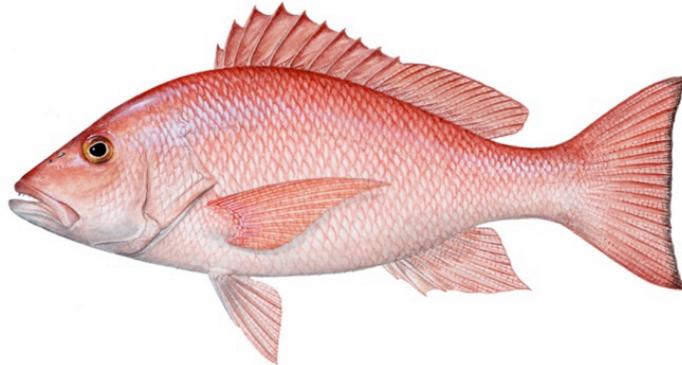


Red Snapper Trading between Sectors



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Scoping Document

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ABBREVIATIONS USED IN THIS DOCUMENT

ACL	Annual catch limit
Committee	Reef Fish Committee of the Council
Council	Gulf of Mexico Fishery Management Council
FMP	Fishery Management Plan
gw	gutted weight
IFQ	Individual Fishing Quota
Magnuson-Stevens Act	Magnuson-Stevens Fishery Conservation and Management Act
mp	million pounds
MRFSS	Marine Recreational Fisheries Survey and Statistics
MRIP	Marine Recreational Information Program
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NOAA Fisheries	Same as NMFS
SEDAR	Southeast Data, Assessment and Review
SEFSC	Southeast Fisheries Science Center
SESSC	Socioeconomic Scientific and Statistical Committee
SERO	Southeast Regional Office
SSC	Scientific and Statistical Committee
ww	whole weight

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CHAPTER 1. BACKGROUND

The continued progress in rebuilding red snapper in the Gulf of Mexico since 1997 has allowed the Council to steadily increase red snapper quotas in recent years. For example, after the completion of the latest red snapper stock assessment, the Council was able to increase the red snapper ACL to 11.0 million pounds for 2013, corresponding to allocations to the commercial and recreational sectors of 5.61 mp and 5.39 mp, respectively. For the commercial fishermen participating in the red snapper individual fishing quota (IFQ), quota increases resulting from the improved status of the red snapper stock are translated into tangible benefits, i.e., proportional increases in IFQ holdings. However, the characteristics of the recreational red snapper fishery, including the open access management regime, make the benefits of quota increases less perceptible to recreational anglers. For example, greater recreational red snapper quota have not resulted in significantly longer recreational seasons due a series of factors, including the increased average weight of red snapper landed. Within this context, the Council has been looking for management measures that could improve the flexibility afforded to the recreational sector and increase the sector's access to red snapper resources.

Since January 1, 2012, a provision included in Reef Fish Amendment 26 (GMFMC, 2006), the regulatory action that established the red snapper IFQ program, allows any US citizen or permanent resident alien to acquire red snapper IFQ shares or annual allocation. However, current regulations still require the possession of a valid commercial reef fish permit to harvest and land red snapper under the IFQ program. As a result, individuals and entities that have acquired IFQ shares or allocation but do not possess a valid commercial reef fish permit are limited to holding or reselling their IFQ shares and allocation. As of December 31, 2012, the number of accounts without a valid commercial reef fish permit totaled 119 and accounted for 21% of the red snapper IFQ shares (SERO-NMFS, 2013). Throughout this document, inter-sector trading is defined to include the acquisition and ability (opportunity) to harvest and land red snapper from IFQ shares or annual allocation without the possession of a commercial reef fish permit. Therefore, should inter-sector trade provisions be developed and implemented, they would allow individuals and entities outside of the commercial sector to harvest and land red snapper from acquired red snapper IFQ shares or annual allocation. Inter-sector trading would also include transactions in the opposite direction and would allow individuals and entities belonging to the commercial sector to buy and land recreational red snapper quota. However, such transactions would not be possible for the time being due to the structure of the recreational sector and the absence of sufficiently defined property rights or privileges in the recreational sector. The acquisition of portions of the recreational red snapper quota by individuals and entities in the commercial sector may be possible in the future once well-defined rights to the red snapper recreational quota are assigned to individuals, entities, sub-sectors, organizations, or communities within the recreational sector. Therefore, the remainder of this document does not further discuss the trade of portions of the recreational red snapper quota but focuses on the exchange of commercial red snapper IFQ shares and annual allocations between the commercial and recreational sectors.

Remaining sections of this document discuss potential management actions that the Council may consider during the development of an inter-sector trading system. Concluding remarks are also provided.

CHAPTER 2. POTENTIAL MANAGEMENT ACTIONS AND ISSUES

The design and implementation of an effective system that would allow commercial and recreational fishermen to trade and harvest red snapper from IFQ shares and annual allocation would require addressing a wide set of issues ranging from the establishment of a maximum percentage of the red snapper IFQ shares and annual allocation that would be made available for inter-sector trading system to the definition and basic organization of entities and individuals or groups that would participate in the trading system.

2.1 Availability of IFQ Shares and Allocation

In designing a trading system, the Council has to determine the time of year during which entities or groups outside of the commercial sector would be allowed to harvest red snapper from acquired IFQ shares or annual allocation. A related consideration would address adjustments, if any, to the existing daily red snapper possession limit. The Council could develop a system that would not place time restrictions on the harvest of red snapper from IFQs by non-commercial entities or groups. Purchasers of red snapper IFQs would therefore be able to harvest red snapper year-round, including during the regular recreational red snapper season. Given that non-commercial fishermen are entitled to a bag limit during the regular season, if they decided to use some of their IFQ shares or allocation during the recreational red snapper season, non-commercial buyers would use them to harvest red snapper in excess of the current 2-fish daily possession limit if the Council adopts trading system without time restrictions. During the off-season, these fishermen could either limit themselves to a bag limit or elect to harvest as many red snapper as desired, based on their IFQ holdings. However, should the Council decide to constrain red snapper harvested by recreational fishermen to the established bag limit, red snapper harvest from IFQ shares by non-commercial fishermen would be limited to the off-season. Alternatively, if Council determines that non-commercial harvest of red snapper from IFQ shares would not be allowed during the regular recreational season and that the 2-fish limit does not apply to these harvests, non-commercial fishermen would be able to harvest as many red snapper as desired during the off-season, based on their IFQ holdings.

2.2 Nature of Privileges Traded

One of the key decisions to be made by the Council would determine the nature of the privileges that non-commercial entities would be allowed to acquire to harvest red snapper from IFQs. The Council would have to decide whether the inter sector trading framework to be established would allow trading of IFQ shares or allocations or both. The decision to allow non-commercial fishermen to harvest red snapper using purchased IFQ shares and allocation would constitute a direct extension of the public participation provision included in Reef Fish Amendment 26 granting any US citizen or permanent resident the opportunity to buy IFQ shares and annual allocation since January 1, 2012. While such a decision would grant non-commercial fishermen increased access to red snapper for an extended time period and possibly result in long term

improvement of the stability and profitability of some operations such as participating for-hire operators, it may also result in long lasting redistribution of IFQ shares between the commercial and recreational sectors and have long term impacts on the amount of IFQ shares available for commercial red snapper harvests. In contrast a decision to limit the inter-sector trading system to IFQ allocation would only grant increased access to non-commercial interests on an annual basis. The exclusion of IFQ shares from the inter-sector trading system may require modifications to the public participation provision of Amendment 26 or would have to stipulate that only annual allocation purchased for the explicit purpose of participating in the inter-sector trading system can be used by non-commercial interests to harvest red snapper from IFQs.

2.3 Percentage of the Commercial Quota

A trading system under which non-commercial fishermen would be able to harvest red snapper using IFQ allocation may need to set an upper limit on the amounts to be traded. In determining whether to establish an annual cap on the amount of IFQ allocation available for inter-sector trading, the Council may consider issues such as the potential economic benefits to non-commercial fishermen, the impacts of reduced commercial red snapper harvests on commercially dependent fishing communities, and the viability of the commercial red snapper sector as a whole. A very limited number of non-commercial fishermen would enjoy the opportunity to access red snapper through IFQ purchases should the amount of unused commercial quota be used as an indication of a possible cap on quota available within an inter-sector trading system. Since the inception of the red snapper IFQ program, the commercial sector has consistently stayed within its allotted quota and has landed in excess of 95% of the commercial IFQ annual allocation (SERO, 2013-6).

2.4 Entities or Groups Participating in Inter-Sector Trading

The practicability of the trading system to be designed as well as the ease of monitoring an enforcement of transactions and red snapper landings by non-commercial fishermen using IFQ shares and allocation are expected to be significantly impacted by the composition and structure of individuals and groups allowed to trade with the commercial sector. Inter-sector trading approaches discussed in this section consider trading between the commercial sector and the recreational sector as a whole, between the commercial sector and for-hire operators, and between the commercial sector and private anglers.

2.4.1 Trade between the Commercial and Recreational Sectors

Commercial fishermen and all members of the recreational sector, i.e., for-hire operators and private anglers could trade red snapper IFQ shares and annual allocations with one another following the same set of rules, within one trading system. IFQ holders could sell shares or allocations to individuals and entities in the recreational sector without making distinctions between for-hire operators and private anglers. Under this approach, the acquisition and distribution of IFQ shares and allocation as well as the harvest of all shares and allocations purchased by the recreational sector would be governed by the same set of rules. This approach

would not be practicable and would significantly restrict the for-hire sector's opportunities to have access to IFQ shares and allocation traded due to differences between for-hire operators and private anglers including the number of participants in the two sub-groups and the open access regime prevailing in the recreational private angling sector and the limited entry in the for-hire sector. For example, should a lottery system that does not make distinctions between the groups be established, the small number of for-hire operators relative to the population of private anglers could significantly restrict access opportunities for for-hire operators.

2.4.2 Trade between Commercial Fishermen and Private Anglers

As of January 1, 2012, private recreational anglers in the Gulf of Mexico as well as all US residents and permanent resident aliens are eligible to purchase red snapper IFQ shares and annual allocation. However, entities or individuals that do not possess a valid commercial reef fish permit cannot legally harvest IFQ shares and allocation that they purchased. This section discusses alternative approaches that would allow private anglers to acquire and harvest red snapper IFQ shares and allocation from the commercial sector.

A first approach could continue to allow private anglers to acquire IFQ shares and allocation, eliminate the commercial reef fish requirement for the harvest of red snapper IFQ, and simply subject all entities and individuals seeking to harvest red snapper IFQ shares and allocation to comply with the current rules and regulations governing the harvest of commercial red snapper IFQs. These rules and regulations include hail-out and hail-in requirements, three-hour notifications prior to landing, use of approved landing sites and possession of vessel monitoring systems (VMS).

A second approach to inter-sector trading between the commercial sector and private recreational anglers would maintain the provisions of Reef Fish Amendment 26 which currently allow anyone to purchase IFQ shares and allocations, eliminate the commercial reef fish requirement for the harvest of red snapper IFQ, and exempt entities and individuals outside the commercial sector from rules and regulations governing the harvest of red snapper IFQ shares and allocation. Although affording private recreational anglers unrestricted opportunities to purchase and harvest IFQ shares and allocation could theoretically enhance the value of the fishery by putting red snapper resources to their highest valued use, these two approaches appear to be intractable. The large number and geographical dispersion of launch sites in the Gulf of Mexico, the multitude of recreational anglers and the absence of a clearly defined number of potential participants under the prevailing open access regime would suggest that the establishment of either approach would present challenges for enforcement and monitoring and may be cost prohibitive in terms of catch and effort validation.

A practicable approach to fostering red snapper IFQ trade between commercial red snapper IFQ shares and allocation holders and private recreational anglers could be developed by offering to private recreational anglers a framework that would allow them to organize and form harvesting communities, groups or cooperatives. The recreational harvesting communities, groups or cooperatives discussed here are adapted from angling management organizations (AMO) proposed by Sutinen and Johnston (2003). AMOs are independent entities open to all anglers and established by private recreational anglers. AMOs allow management devolution, co-

management, and strengthened recreational harvest rights. The design of these organizations is left to stakeholders. Major design elements to consider include rights and responsibilities of members, monitoring and enforcement, and funding. For the inter-sector trading system under consideration, the Council could therefore allow private anglers to organize into regional anglers organizations. These regional organizations would purchase IFQ shares or annual allocation on behalf of their members. The distribution of acquired IFQ shares or allocation, as well as the monitoring and enforcement of associated harvests would be administered by the organizations. The Council may require that these organizations adhere to minimum standards addressing issues such as geographical boundaries and equal access to membership.

2.4.3 Trade between Commercial Fishermen and For-hire Operators

As of July 31, 2013, there were 1,288 federally permitted reef fish charter vessels operating in the Gulf of Mexico. As any US citizen or permanent resident alien, for-hire operators are allowed to purchase red snapper IFQ shares and annual allocation since January 1, 2012 but are currently unable to fish them without the possession of a valid commercial reef fish permit. Some federally permitted for-hire operators are dual permitted, i.e., they also own a federal commercial reef fish permit and are therefore able to harvest red snapper commercially. Out of the 1,288 federally permitted for-hire operators, 166 permits or approximately 13% are dual permitted. Collectively, the 53 IFQ accounts with dual permits own 12.5 % of the red snapper IFQ shares. The geographical distribution across the Gulf of federally permitted reef fish for-hire vessels, and dual permitted vessels and their IFQ share ownership is provided in Table 1. Dual-permitted vessels with IFQ shares and allocation are not allowed to harvest red snapper form IFQ shares while on charter trips.

Table 2.4.3.1: Federal reef fish commercial and for-hire permits and red snapper IFQ share ownership of dual-permitted vessels across the Gulf. IFQ share ownership is expressed in percent of the commercial red snapper quota.

Vessel Homeport	Federal Reef Fish Permits			Dual Permits	
	For-Hire	Commercial	Dual	IFQ Accounts	IFQ Shares (%)
Florida	761	676	123	39	0.0712
Alabama	153	42	16	6	0.0129
Louisiana	115	49	8		
Mississippi	46	10	1		
Texas	213	68	18	8	0.041
Total	1,288	845	166	53	0.1251

Source: NMFS-SERO

In response to shortened recreational red snapper seasons and an increasingly uncertain business environment for the for-hire industry in the Gulf of Mexico, the Council has considered various management approaches and discussed alternatives proposed by independent groups, including the potential implementation of a pilot days-at-sea program for the charter industry and the Council’s recommendation for approval by NMFS of an exempted fishing permit for a pilot headboat IFQ program submitted by an independent cooperative of headboat operators. While a

days-at-sea program may increase flexibility in charter trip scheduling and possibly have positive impacts on the profitability of charter businesses, it does not constitute an avenue that would increase the industry's ability to provide access to additional red snapper resource. Based on these considerations and on the limitations that section 407(d) of the Magnuson-Stevens Act would impose on a days-at-sea pilot program, the Council elected to not pursue its development. The EFP for the proposed headboat IFQ program is awaiting final approval by NMFS. The inter-sector trading framework introduced in this section would allow for-hire operators to acquire and harvest red snapper from IFQ shares and allocation. The trade between the commercial red snapper IFQ holders and charter operators would afford the for-hire industry more opportunities to access red snapper, potentially resulting in increased for-hire trips and improved economic profitability. Although less challenging than approaches discussed for private anglers due to the limited number of for-hire operations, trading systems that would allow individual for-hire operators to purchase IFQs and harvest red snapper could also be difficult to monitor. A system that would subject for-hire operations participating in inter-sector trading to the rules and regulations of the commercial IFQ program or a system based on the monitoring of red snapper harvests of individual for-hire operations would not be practicable because it could generate an unnecessarily large number of transactions and be cumbersome, very costly, and inconvenient for for-hire operators and their customers. In contrast, the Council could significantly reduce the number of transactions and consider the implementation of a system that would allow for-hire operations to set up regional groups or cooperatives. These regional for-hire groups would be independent entities organized along the AMO principles discussed in the section considering trade between the private anglers and the commercial sector.

2.5 Trading Units

Regardless of the recreational entities, individuals or groups selected to participate in the inter-sector trading alongside commercial fishermen, a monitoring of recreational landings from IFQ shares and allocation based on pounds of fish harvested appears to be inconvenient for recreational anglers, extremely challenging and cost prohibitive for enforcement and regulatory agencies. Fish tags would offer a practicable alternative to pounds landed by the recreational sector. Johnston et al. (2007) provide a detailed discussion of the use of fish tags in recreational fisheries of the Gulf. Pounds of IFQ annual allocation purchased by the recreational sector would be converted into single-use tags based on the estimated average weight of a red snapper. This average weight would be periodically adjusted based on available data. For example, the current average weights per red snapper used by SERO (SERO, 2013-2) to estimate recreational season lengths were 7.49 lbs ww per fish and 8.20 lbs ww per fish for Eastern Gulf states (Florida-Mississippi) and Western Gulf states, respectively. All fish harvested by non-commercial interests under the inter-sector trading system would have to be tagged and available for inspection, data collection, or enforcement. Based on the assumption that the recreational anglers are purchasing IFQ allocation to increase fishing opportunities, tags will only be valid for the fishing year during which they are issued.

2.6 Trading Systems and Distribution of Purchased IFQ Shares

The inter-sector trading system could allow direct transactions between interested individual parties or establish a Council-designed clearinghouse supervised by NMFS. Although individual transactions without intermediaries would constitute the most flexible trading approach, they are expected to raise a series of challenges and may be associated with unintended and possibly undesirable consequences. Challenges to be expected from transactions between individuals include the large number of transactions to be completed, the lack of information concerning the availability of IFQ shares or allocation for sale, and the potential for localized scarcity in some parts of the Gulf. In addition, direct transactions may unintentionally grant a significant competitive advantage to dual-permitted IFQ holders (individuals with commercial and for-hire reef fish permits). Under such a system, dual-permitted entities can simply use their IFQ shares and allocations for their for-hire operations. Commercial IFQ holders would also have the ability to pick winners and losers by determining the for-hire operations that they would sell IFQs to.

A clearinghouse designed by the Council and placed under the supervision of NMFS would be expected to alleviate the challenges that would result from a system allowing direct transactions. IFQ holders, including dual-permitted entities, willing to sell shares and allocations to be used in the inter-sector trading system would periodically make the shares and allocations available to the clearing house and indicate the minimum price that they would be willing to accept for the sale. NMFS would then convert the shares received into fish tags and auction them to interested parties from the recreational sector. The frequency of these auctions could be determined based on the available supply of IFQ shares and allocations, e.g., monthly or quarterly. It is likely that the number of interested buyers would at times exceed the available supply. Under those conditions, a lottery system granting the right to bid for and possibly purchase a given quantity of IFQ shares or allocations would be necessary.

2.7 Cost Recovery

In accordance with the Magnuson-Stevens Act, the red snapper IFQ program has established a cost recovery fee equal to 3% of the ex-vessel value of the landed red snapper. The fees have to be collected by the dealers who in turn submit the amount collected to NMFS. One of the challenges of designing a well-functioning trading system would be to establish a practicable cost recovery mechanism to allow NMFS to recoup these funds.

CHAPTER 3. CONCLUSIONS

Among the management measures currently under consideration by the Gulf Council, the implementation of a trading system that would allow recreational anglers to harvest red snapper from IFQ shares and annual allocation purchased from the commercial sector constitutes a promising management avenue to add flexibility to the recreational sector and expand its access to red snapper resources. However, the features of the program, including design elements discussed in this document, would determine the future effectiveness of the inter-sector trading system.

In addition to expanding recreational red snapper fishing opportunities and improving their quality, a well-functioning inter-sector trading system could significantly improve the profitability of participating for-hire operations, foster cooperation between the commercial and recreational sectors, and contribute to a better understanding of the opportunities that could be offered by rights-based management approaches. However, due consideration would have to be accorded to measures needed to mitigate the potential adverse effects of an inter-sector trading system, including the reduced availability of IFQ shares and allocation for small IFQ shareholders and new entrants. In addition, the uncertainty within the current regulatory environment may need to be reduced to improve the likelihood of a successful inter-sector trading system. Specifically, the Council may need to settle issues relative to regional management (Reef Fish Amendment 39), potential modifications to the red snapper IFQ program (Reef Fish Amendment 36), and re-allocation of the red snapper quota between the sectors (Reef Fish Amendment 28) to improve buy-in from the public and facilitate the transition to an inter-sector trading system.

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