Discussion Paper

Alternative Approaches to Fee Collection for a Restructured Observer Program

North Pacific Fishery Management Council
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1.0 Introduction

The purpose of this paper is to identify alternative approaches to fee collection for analysis in light of the new North Pacific Groundfish Observer Program (Observer Program) restructuring alternatives developed by the Council at its April 2004 meeting. To date, discussion of alternatives for Observer Program restructuring has focused primarily on scope, i.e. which industry components and fleets would be included in the new fee-based program. Less attention has been paid to the sort of fee program necessary to fund those alternatives. In addition, prior to April 2004, the Council was considering a suite of alternatives that primarily focused on the Gulf of Alaska (GOA), where an observer fee based on the ex-vessel value of landed catch was considered to be the most viable approach. The Council's new alternatives expand the program to include the major BSAI fisheries with coverage levels of 100% or greater.

The Council's motion in April 2004 was as follows:

> *The Council added an alternative to the analysis that would provide for a program-wide service delivery model change to provide agency oversight of observers in all observed GOA and BSAI fisheries through direct contracts between NMFS and observer providers. Under this alternative, funding of observer coverage costs could range from a program-wide fee-based approach to sector specific funding, which could include payment for daily coverage costs in some sectors and fees in other sectors.*
>
> *The Council also approved the Observer Advisory Committee's new alternatives and suboptions.*

While the Council motion explicitly approves a program-wide alternative to include all vessels and processors operating in the North Pacific, the range of potential fee programs proposed for this alternative is fairly broad. Staff therefore proposes some suboptions in this discussion paper to serve as a starting point for the analysis relative to the new alternatives that include the major BSAI fisheries with coverage levels of 100% or greater (Alt. 6 and 7). While a wide variety of fees are theoretically possible, this paper suggests that the most viable alternative to an ex-vessel value fee is likely a daily observer fee based on each vessel's coverage level and average daily observer costs. Therefore, the Council may wish to consider adding two fee program suboptions that would apply only to the new Alternatives 6 and 7 (as renumbered in this paper):

Suboption 1: Establish a uniform ex-vessel value fee for all vessels and processors covered by the program

Suboption 2: Establish two separate programs that are differentiated by fee type and coverage level: (1) Vessels and processors in fisheries that generally have less than 100% coverage requirements would pay a uniform ex-vessel value fee and carry observers when requested to do so by NMFS; (2) Vessels and processors in fisheries with mandatory coverage requirements of 100% or greater would pay a daily observer fee based on their required levels of coverage.

1.1 Problem statement

At its April 2004 meeting, the Council reaffirmed the following problem statement that it adopted previously in February 2003:

> *The North Pacific Groundfish Observer Program (Observer Program) is widely recognized as a successful and essential program for management of the North Pacific groundfish fisheries. However, the Observer Program faces a number of longstanding problems that result primarily from its current structure. The existing program design is driven by coverage levels based on vessel size that, for the most part, have been established in regulation since 1990. The quality and utility of observer data suffer because coverage levels and deployment patterns cannot be effectively tailored to respond to current and future management needs and circumstances of individual fisheries. In addition, the existing program does not allow fishery managers to control when and where observers are deployed. This results in potential sources of bias that could jeopardize the statistical reliability of catch and bycatch data. The current program is also one in which many smaller vessels face observer costs that are disproportionately high relative to their gross earnings. Furthermore, the complicated and rigid coverage rules have led to observer availability and coverage compliance problems. The current funding mechanism and program structure do not provide the flexibility to solve many of these problems, nor do they allow the program to effectively respond to evolving and dynamic fisheries management objectives.*

1.2 New alternatives added by the Council in April 2004

The following suite of alternatives was adopted by the Council at its April 2004 meeting. Alternatives 1 - 4 focus exclusively on the GOA, and Alternatives 5 - 7 include various BSAI fisheries to the program. Prior to April 2004, the Council had approved five alternatives which were contained in the draft preliminary EA/RIR that was reviewed by the Council at its December 2003 meeting. At its April 2004 meeting, the Council expanded its previous Alternative 5[1] into three new alternatives which are now identified as Alternatives 5 - 7. These alternatives should be viewed as representative points on a continuum ranging from a small program focused on GOA groundfish to the complete restructuring of the Observer Program for all groundfish and halibut fisheries in the North Pacific. The overall analysis should provide sufficient information to enable the Council to fine-tune the combination of fisheries and industry components that would be included in the preferred alternative at some point in the future should it not match up exactly with one of the following alternatives:

Alternative 1. ***No action alternative***. Under this alternative, the current interim "pay-as-you-go" program would continue to be the only system under which groundfish observers would be provided in the groundfish fisheries of the BSAI and GOA.

Alternative 2. ***GOA groundfish vessels only.*** Under this alternative, a new fee-based Observer Program would be established for GOA groundfish vessels, including GOA groundfish vessels under 60'. Regulations that divide the fleet into 0%, 30%, and 100% coverage categories would

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[1]Because the Council's previous Alternative 5 is almost identical to the Alternative 7 adopted in April 2004, staff has combined those two alternatives into a single new Alternative 6. The only practical difference between the two alternatives was whether or not to include longline CVs over 125' in the BSAI, a vessel class in which there are few if any vessels operating. For this reason staff believed that the two alternatives should be consolidated. As a result, the new Alternatives 6 through 8 adopted by the Council in April 2008 are now identified as Alternatives 5 through 7.

no longer apply to vessels in the program, and vessel operators would no longer be responsible for obtaining their own observer coverage. Under the new program, NMFS would determine when and where to deploy observers based on data collection and monitoring needs and would contract directly for observers using fee proceeds and/or direct federal funding. Vessels would only be required to carry an observer when one is provided by NMFS. The fee would be based on a percentage of the ex-vessel value of each vessel's GOA groundfish landings and would be collected through annual billing by NMFS.

Alternative 3. ***GOA groundfish vessels and halibut vessels only.*** This alternative is the same as Alternative 2 except that halibut vessels from all areas off Alaska would be included in the program. Fees would be collected from halibut landings as well as groundfish landings through annual billing by NMFS, and NMFS would have the authority to place observers on halibut vessels as well as groundfish vessels.

Alternative 4. ***GOA groundfish vessels, halibut vessels and GOA-based groundfish processors.*** This alternative is the same as Alternative 3 except that GOA-based groundfish processors would be included in the program. However, in contrast to Alternatives 2 and 3, fees would be collected by processors at the time of landing, and fee proceeds would be submitted to NMFS on a quarterly basis.

Alternative 5. ***GOA groundfish vessels, halibut vessels, GOA-based groundfish processors, BSAI fixed gear catcher vessels and BSAI pot vessels.*** This alternative expands on Alternative 4 by including BSAI fixed gear catcher vessels (longline, jig, & pot) and BSAI pot catcher processors. Vessels fishing for CDQ that fit into these categories are also included.

Alternative 6. ***GOA groundfish vessels, halibut vessels, GOA-based groundfish processors, all BSAI groundfish vessels under 125', and all BSAI pot vessels.*** This alternative expands on Alternative 5 by adding BSAI trawl catcher vessels under 125', and BSAI trawl and longline catcher/processors under 125'. Vessels fishing for CDQ that fit these categories are also included.

Suboption 1: ***Include longline catcher processors ≥ 125'.*** This suboption would expand Alternative 6 by including longline catcher processors >125 operating in the BSAI.

Suboption 2: ***Include non-AFA (H&G) trawl catcher processors ≥ 125'.*** This suboption would expand Alternative 6 by including non-AFA trawl catcher/processors ≥125' (i.e., the H&G fleet).

Alternative 7. **All groundfish vessels and processors and all halibut vessels.** This alternative would establish a new fee-based Observer Program in which NMFS has a direct contract with observer providers for all GOA and BSAI groundfish and halibut fisheries. Funding of observer coverage costs under this alternative could range from a program-wide fee-based approach to sector-specific funding, which could include payment for daily coverage costs in some sectors and uniform fees in other sectors.

Two additional shoreside processor-related suboptions that apply to multiple alternatives are not included in the alternative summaries above. The suboptions are as follows:

> **Suboption to exclude GOA processors from Alternatives 4 through 6.** GOA shoreside and floating processors are included in Alternatives 4 through 7. This suboption would allow GOA-based shoreside and floating processors to be excluded as a class from Alternatives 4 through 6.
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> **Suboption for annual opt-in/opt-out provision for BSAI-based shoreside and floating processors under Alternatives 4 through 6**. Under Alternatives 4 through 6, BSAI-based inshore and floating processors would participate in the fee collection program and would pay fees for any landings by vessels that are included in the program. However, BSAI-based shoreside and floating processors would not pay fees for landings by vessels not included in the program and would not obtain their observer coverage through the program. This suboption would allow individual BSAI-based shoreside and floating processors to opt-in to the program on an annual basis under Alternatives 4 - 6. Processors choosing to opt-in to the program would receive their observer coverage through the program and would pay fees on <u>all</u> of their groundfish landings including those by vessels not covered by the program.

1.3 Matrix of alternatives showing which vessel and processor classes are included under each alternative

Area	*Vessel class*	*Alt 1 (No action)*	*Alt. 2*	*Alt. 3*	*Alt. 4*	*Alt. 5*	*Alt. 6*	*Alt. 7*
GOA	CV < 60'	0%						
	CV 60'-124'	30%						
	CP 60'-124'	30%						
	CV ≥ 125'	100%						
	CP ≥ 125'	100%						
	Halibut (all classes and areas)	0%						
	Shoreside/floater	0%. 30%. & 100%			Suboption to include or exclude GOA processors from these alternatives			
BSAI	< 60' (all gears)	0%						
	Halibut (all)	0%						
	Longline CV 60'-124'	30%						
	Pot CV & CP ≥ 60'	30%						
	Longline CV ≥ 125'	100%						
	Longline CP 60'-124'	30%						
	Longline CP ≥ 125'	100%					Suboption to include	
	Trawl CV 60'-124'	30%						
	Trawl CV ≥ 125'	100%						
	H&G trawl CP 60'-124'	30%						
	H&G trawl CP >125'	100%					Suboption to include	
	Shoreside/floater	0%. 30%. & 100%			Suboption for annual opt-in/opt-out provision			
AFA & CDQ	AFA CP	200%						
	AFA pollock	200%						
	CDQ pollock	200%						
	AFA mothership	200%						
	AFA inshore processor	200%			Suboption for annual opt-in/opt-out provision			
	CDQ fixed gear CP	200%						
	CDQ fixed gear CV	100%				All vessel classes included for non-CDQ fishing are also included when fishing for CDQ		
	CDQ H&G trawl CP	200%						
	CDQ trawl CV ≥60'	100%						

2.0 Alternative fees and revenue sources to fund observer coverage

Various types of fees and revenue sources have been introduced and discussed in previous analyses with most of them rejected in favor of a fee based on the ex-vessel value of landed catch for a program based primarily in the GOA.[2] However, the Council's decision in April 2004 to expand the scope of the alternatives to include major BSAI fisheries has given rise to the need to take a second look at the various fee collection approaches and further define the type of approach or approaches that are most viable for the expanded program under consideration.

2.1 Fee based on the ex-vessel value of landed catch

Fees based on the ex-vessel value of landed catch are the most commonly-used type of fee in the North Pacific. Both the original Research Plan and the halibut/sablefish IFQ cost-recovery program use fees based on the ex-vessel value of landed catch.

2.1.1 Advantages of using an ex-vessel value fee to fund observer coverage

A fee based on the ex-vessel value of landed catch has the following advantages:

- *Equity.* An ex-vessel value fee is perhaps the most equitable method of funding observer coverage because it is based on the value of the resource each operation uses. An ex-vessel value fee is related both to each operation's ability to pay and the benefits received from the fishery. Under the existing pay-as-you-go program, some smaller vessel operators face observer costs that are disproportionately high relative to their revenue, which is a concern identified in the Council's problem statement.

- *Broad-based approach.* An ex-vessel value fee is the easiest type of fee to apply on a universal basis to all participants in the groundfish fisheries regardless of size and coverage levels. That is because the fee can be assessed at the time of each landing regardless of how large or small the landing. The current system in which vessels pay for their own coverage exempts all vessels that do not have coverage requirements even though their fisheries are managed by data collected by observers on larger boats that do have required coverage.

- *Predictability.* A fee that is withheld at the time of landing is likely easier for fishermen to predict and plan for because they need not worry about maintaining sufficient funds in the future to pay for coverage. Fees imposed on a yearly or quarterly basis would require fishermen to set-aside sufficient funds to pay for future coverage fees. This may be difficult for some operations that may not know how much revenue to set aside for future fee payments because they may not know how many future fishing days to expect.

- *Easiest to collect.* An ex-vessel value fee that is automatically withheld at the time of landing by the processor would likely be the easiest type of fee to assess and collect because the processor knows how much was paid for the fish. The existing electronic reporting software used by processors to

[2] The Observer Advisory Committee and NMFS also considered the use of the following: fees based on total catch; fixed tonnage fee by species or product; licensing fees; fuel taxes; tax, import/export taxes on seafood products; and a TAC set-aside for cost recovery. Problems with each of these types of fees and revenue sources led to their elimination from further consideration and analysis.

report landings to NMFS could likely be modified to automatically generate fee assessments, relieving processors of the task of calculating fee amounts. However, this advantage would not apply if the fee is collected after-the-fact on an annual or quarterly basis by NMFS through direct billing of fishermen.

2.1.2 Disadvantages to an ex-vessel value fee

A fee based on the ex-vessel value of landed catch is not without disadvantages:

- *Fee revenues not directly linked to coverage costs.* This is perhaps the most significant disadvantage to an ex-vessel value fee. Because the fee revenues would not be directly related to observer coverage costs, it is highly likely that the program would experience revenue shortfalls or surpluses relative to the amount of observer coverage desired. The amount of revenue generated by an ex-vessel value fee depends on a variety of factors including: (1) the fee percentage, (2) ex-vessel prices for species covered by the program, and (3) the amount of total landings. Observer coverage costs also depend on various factors including: (1) the daily rate charged by observer providers, (2) the number of vessels participating in a fishery, (3) season lengths, and (4) the desired coverage levels. Given that both fee revenues and coverage costs are likely to vary considerably from year to year as a result of factors that may be difficult to predict or control, it is unlikely that an ex-vessel value fee program could be designed to exactly match coverage costs.

- *Fee percentages could be difficult to adjust.* Given recent guidance on framework measures, it is unlikely that an ex-vessel value observer fee could be designed so that the fee percentage could be adjusted quickly or automatically. Recent guidance suggests that the fee percentage would need to be established in regulation, and any change in the ex-vessel value fee percentage would require notice and comment rulemaking and economic analysis of the impacts of the proposed change. Therefore, it is unlikely that fee percentages could be adjusted in a timely manner to account for changing prices, landings, and coverage costs.

2.1.3 Types of fisheries that lend themselves to an ex-vessel value fee program

The type of fisheries for which an ex-vessel value fee may be most appropriate are those in which coverage levels are less than 100%, and observer data is used to extrapolate activity from observed to unobserved vessels. The Pacific cod fishery in the GOA fits this description in that the catch is split primarily between vessels with 30% coverage requirements and vessels with no coverage requirements. At present, few vessels with 100% coverage requirements participate in this fishery. In the GOA Pacific cod fishery, observer data is used by inseason management primarily to generate fleet-wide halibut bycatch rates for each gear type.

An ex-vessel value fee would allow NMFS to collect observer funds from all participants in the fishery instead of just the few vessels that are required to carry observers, and distribute observers throughout the fishery in the most efficient manner. To some extent, coverage levels could be adjusted to account for fluctuations in revenue without dramatically affecting the ability of NMFS to manage the fishery.

2.2 Daily observer fee based on coverage costs (modified "pay-as-you-go")

The most viable alternative to a fee based on ex-vessel value is a daily observer fee based on coverage costs. This approach would to some extent mirror the existing "pay-as-you-go" program, except that vessel owners would be billed by NMFS or a third party contractor for their coverage instead of contracting directly with an observer provider. This approach is probably only feasible for vessels and processors with 100% or greater coverage. Such a fee could be designed to exactly match the direct costs of observer coverage, as is currently the case with the pay-as-you-go program, or the fee could be set at a lower level than actual coverage costs if Federal funds are available to support the program.

Under this approach, NMFS would monitor each vessel's activity and would assess a fee based on the number of observer deployment days. The fees could be collected through direct billing by NMFS or by a third party such as a billing service. It is expected that this approach would only be applied to vessels and processors with 100% or greater coverage levels.

2.2.1 Advantages to a daily observer fee based on coverage levels

This type of approach has several advantages:

- *Revenues could exactly match costs.* If the daily costs of observer coverage are known in advance (as they would be if NMFS entered into long-term contracts with observer providers) then a daily observer fee could be designed to exactly match the costs of coverage. This is a major advantage to such an approach because it means that coverage would not be threatened by revenue shortfalls.

- *Fees more closely match monitoring requirements.* An ex-vessel value fee charges everyone based on their revenues without regard to differences in monitoring requirements in different fisheries. A fee based on coverage means that everyone pays for the coverage they receive whereas a fee based on ex-vessel value means that some vessels would subsidize coverage for others.

2.2.2 Disadvantages to a daily observer fee based on coverage

A daily observer fee based on coverage requirements would have the following disadvantages:

- *Does not address cost equity issues.* One disadvantage to such an approach is that it does not address the problem of disproportionate costs that plagues the current pay-as-you-go program and is identified in the problem statement. In effect, vessels would be charged for their observer coverage in a very similar manner to how they are charged today, except that NMFS would be assessing the fee directly. For this reason, we are not proposing this system be adopted in fisheries with less than 100% coverage where the issues of cost-equity have been the most pressing.

- *Difficult to administer in fisheries with less than 100% coverage.* Another disadvantage to a daily observer fee approach is that it would be difficult to administer in fisheries with less than 100% coverage requirements. In fisheries with less than 100% coverage requirements, the daily observer fee could be assessed at a rate that matches the target coverage level for a fishery. However, such an approach would reduce the ability of managers to move coverage around to respond to changing management needs. If a daily observer fee is linked to coverage levels in a particular fishery, then every decision by NMFS to modify coverage levels would result in fee increases or decreases and require lengthy analysis and rulemaking. This could severely restrict the ability of NMFS to modify coverage levels in a timely manner to respond to changing data needs, which is one of the primary concerns identified in the problem statement. This is another reason why staff does not recommend this approach for fisheries with less than 100% coverage.

2.2.3 Types of fisheries that lend themselves to a daily observer fee based on coverage costs

The types of fisheries for which a daily observer fee may be most appropriate are those in which 100% or greater coverage requirements are mandated by law or by the requirements of specific management programs. Typically these are fisheries in which individual vessel monitoring is required for management or enforcement purposes. For example, the American Fisheries Act (AFA) mandates that all AFA catcher/processors carry two observers at all times such vessels are fishing or processing in the North Pacific. The monitoring requirements of the CDQ program and the proposed IR/IU retention requirements for BSAI non-AFA trawl catcher/processors ≥ 125' also require 100% or greater coverage. In these fisheries, reducing coverage levels to respond to revenue shortfalls is not a viable option because the management programs are dependent on vessel-specific observer data to function.

For this reason, a daily observer fee based on coverage costs may be the most viable approach for fisheries in which the need for individual vessel monitoring requires 100% or greater coverage levels. Such a fee would ensure that fishing operations are not affected by revenue shortfalls because the fees collected would always be adequate to pay for the required coverage.

2.3 Federal funds (partial or full Federal funding)

With one exception,[3] the Federal observer programs in other regions of the U.S. are entirely Federally funded. Given this fact, many fishermen in the North Pacific believe their observer programs should also be Federally funded. Although the likelihood that Federal funds could become available to partially or fully support the groundfish observer program in the North Pacific is not easily predicted, Federal funding will be considered in the analysis as a possible source of future funding for the Observer Program. In general, Federal funding for observer coverage can be divided into two categories: ongoing partial to full support or one-time start-up funding. Details on the need for and use of Federal funding, specifically with regard to start-up funding, will be provided in the analysis. All of the alternatives under consideration can absorb partial or full Federal funding should it become available.

3.0 Fee collection mechanisms

To a large extent, the mechanism chosen for fee collection is driven by the type of fee and to whom it applies. Fees based on the ex-vessel value of landed catch may be most efficiently collected by processors at the time of landing, as was determined in the original research plan and in the current 0.6 cent/lb fee for inshore pollock landings. Alternatively, a daily observer fee may be most appropriately collected by NMFS, or by a third party contracted by NMFS, because processors do not necessarily have the ability or resources to track each vessel's fishing activity or observer deployment days.

The previously adopted Alternatives 2 - 5 take two different approaches to fee collection. Under Alternatives 2 and 3, which include vessels but not processors in the program, NMFS would bill vessel owners directly on an annual basis. Under Alternatives 4 and 5, processors are included in the program, and would be responsible for collecting fees at the time of landing. Alternatives 6 and 7 would rely on a combination of fee collection mechanisms depending on the type and combination of fees ultimately chosen.

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[3]The Northeast sea scallop observer program is funded by a TAC set-aside rather than federal funds. Vessels carrying observers are allowed to harvest more scallops than vessels without observers, and the sale of these additional scallops is used to pay for the costs of observer coverage.

4.0 Proposed approaches for combining fee approaches with the alternatives

Unless the Council provides new direction, the analysis will continue to consider a uniform fee based on a percentage of ex-vessel value for Alternatives 2 - 5, as has been generally understood and approved by the OAC and Council during the development of the draft EA/RIR that was presented in December 2003. This section is focused primarily on the new Alternatives 6 and 7, for which the type of fee has not yet been specifically defined by the OAC or Council. The Council's motion in April provided a range of potential fee options, from a uniform fee to a fee based on daily observer costs. The following recommendations stem from the concepts in the Council's motion and provide more defined fee options to be applied to Alternatives 6 and 7.

Staff recommends two fee program suboptions for analysis that would apply only to Alternatives 6 and 7:

Suboption 1: Establish a uniform ex-vessel value fee for all vessels and processors covered by the program.

Suboption 2: Establish two separate programs that are differentiated by fee type and coverage level: (1) Vessels and processors in fisheries that generally have less than 100% coverage requirements would pay a uniform ex-vessel value fee and carry observers when requested to do so by NMFS; (2) Vessels and processors in fisheries with mandatory coverage requirements of 100% or greater would pay a daily observer fee based on their required levels of coverage.

Under Suboption 2, decisions about which vessels and processors would participate in which program would be determined on a fishery-by-fishery basis after analysis of future coverage needs, and would not necessarily be based on the current vessel-length based criteria.

4.1 Uniform ex-vessel value fee for all vessels and processors covered by the program

This suboption is fairly self-explanatory. The program would resemble the original research plan in that all vessels and processors covered by the program would be assessed a fee based on the ex-vessel value of landed (retained) catch. In the case of catcher vessels delivering to a processor, both the vessel and processor would pay one-half of the total fee. Catcher/processors would be responsible for paying the entire fee. In the case of catcher/processors, for which an ex-vessel price is not available, the fee would be determined using standard prices and the round-weight equivalent of their landed catch.

4.2 Two separate programs with an ex-vessel value fee for fisheries with generally less than 100% coverage and a daily observer fee for fisheries with 100% or greater coverage

This suboption is somewhat more complicated in that it would first require a re-examination of coverage levels in all fisheries, and then assign each fishery into one of the two fee programs based on those new coverage levels. The existing coverage categories based on vessel length would be eliminated.

1. **Ex-vessel value fee for fisheries with coverage levels generally less than 100%**. The vessels and processors participating in this program would be those with coverage levels that are generally less than 100%. All vessels participating in the program would pay an ex-vessel value fee on their groundfish and/or halibut landings regardless of whether they are required to carry an observer. Vessels and processors would not have a particular coverage level specified in regulation, but would

be required to carry an observer when requested to do so by NMFS. Coverage levels on a fishery-by-fishery basis would be determined by NMFS and could be adjusted on an inseason basis to respond to changing management needs. Although this program would be designed for fisheries that generally require less than 100% coverage, NMFS would not be precluded from assigning 100% or greater coverage to specific vessels or processors as circumstances and budgets warrant.

2. **Daily observer fee for fisheries with mandatory coverage of 100% or greater**. The vessels and processors participating in this program would be those in fisheries that require 100% or greater coverage levels to function. Coverage requirements would continue to be specified in regulation and participants would pay a daily observer fee based on their coverage level and average daily coverage costs. Examples of fisheries in which 100% or greater coverage is required by regulation include catcher/processors fishing for CDQ or AFA pollock, and H&G catcher/processors that would be covered by the proposed IR/IU requirements in the BSAI. The only practical difference from the status quo is that payment for observer services would go directly to NMFS or a third party, and NMFS would be responsible for contracting with observer providers for coverage.

The purpose of creating two separate programs is so that the most appropriate type of fee can be applied to each fishery. However, it should be emphasized that the assignment of individual fisheries into one program or the other does not necessarily have to follow a rigid formula that is determined by coverage levels. The use of coverage levels is simply one tool that could be used to determine which program is more appropriate for each fishery. In addition, the fishery categories used for this purpose (gear type, area, target species, processing mode) may be different from the fishery categories used for other purposes such as TAC and PSC allocations. It is not the purpose of this discussion paper to specify exactly which fisheries and/or vessel categories would be assigned to each program. That task is left for future analysis and public discussion.

However, if the general concept is followed, the groundfish and halibut fisheries of the GOA would likely fall into the less than 100% coverage category and would be subject to an ex-vessel value fee, while the trawl catcher/processor fisheries operating in the BSAI would fall into the 100% or greater coverage category and would be subject to a fee based on daily coverage costs. The category assignments are less obvious in existing fisheries that currently have a mix of 30% and 100% coverage vessels. These include the AFA inshore pollock fishery, the BSAI catcher vessel trawl fishery for Pacific cod, and the BSAI freezer longline fishery for Pacific cod. In all three of these fisheries, the participating fleet is split fairly evenly between 30% and 100% coverage vessels, and in many instances there is little operational difference between 30% vessels that are under 125' length overall and 100% vessels that are 125' or longer. Recall that the coverage requirements based on vessel length would be eliminated and each fishery would be assigned to a single category for fee collection and coverage purposes.

It should be emphasized that this suboption would require a thorough fishery-by-fishery examination of existing coverage levels to determine which program is most appropriate for each fishery. It may be necessary to develop new fishery categories appropriate for this purpose. In addition, fishery categories could change as future management programs evolve and generate different coverage needs. Fisheries that currently have less than 100% coverage may need 100% or greater coverage in the future to accommodate future rationalization programs or other management priorities.

Finally, it is the assumption of this discussion paper that these two different fee programs would operate independently, although they may well share staff and resources. The fees generated by each program would only be used to pay for coverage on the vessels and processors participating in each program. In other words, vessels paying an ex-vessel value fee would not be subsidizing coverage for vessels in the daily observer fee program and vice versa. Each program would contract separately with one or more observer providers to provide coverage, and the types of contracts and role of observer providers in each program could be different. These issues will be developed in more detail in the overall analysis.

5.0 Council action at this meeting

As described in the introduction, the primary purpose of this discussion paper is to suggest suboptions that specify the fee collection mechanisms that would be under consideration for Alternatives 6 and 7 – the two alternatives that include large-scale BSAI fisheries in the program. Because this concept was only discussed by the Council in a broad sense in April, staff was reluctant to introduce it into the larger analysis without an indication from the Council that this constitutes a reasonable starting point to defining the two fee programs and determining which type of fee is most appropriate for each fishery.

If the daily observer fee suboption as described in this paper is acceptable to the Council, staff will proceed by developing the concept much more thoroughly in the larger analysis. During initial review, staff could bring forward any additional decision points and suboptions related to this concept that arise during the analytical process. Alternatively, if staff is not on the right track with the proposed suboptions, the fee program options may need to be revisited through the OAC or other scoping process before proceeding with the preparation of an initial review draft analysis. Initial review of the analysis is tentatively scheduled for October 2004.