

The Chignik fishing co-op is a cautionary tale about why restructuring in Alaska's salmon fisheries is so hard and so controversial—and why it's unlikely to happen until Alaskans clarify their goals for the fisheries and establish ways to achieve those goals.

“Restructuring” means changing the rules about who can fish, when and where they can fish, and how much they can catch. Such changes can help fishermen compete, by reducing costs or improving the quality and value of the catch. Competition from farmed salmon and other factors have battered the fisheries; earnings of fishermen have plummeted, even as harvests reached near-record highs.

In 2002, some Chignik permit holders decided to form a co-op to cut costs—if the Alaska Board of Fisheries would agree to change the rules and allocate part of the harvest specifically to the co-op. After much debate, the board agreed. More than 75 of the 100 Chignik permit holders joined, and for the past four years they've caught their annual allocation with about 20 boats. Independent permit holders also have an allocation and fish in separate openings.

This co-op is the only recent example of restructuring in the salmon fisheries. But bitter controversy over its equity and social and economic effects has divided Chignik, and legal uncertainty hangs over it. The Alaska Supreme Court ruled in March 2005 that the co-op regulations violated state law. But after the Board of Fisheries modified those regulations—and after subsequent legal challenges—the court agreed to let the co-op operate during the 2005 season. But the court could still find the co-op illegal, and co-op opponents have now taken their fight to the federal courts as well.

Whatever happens next, the co-op vividly shows two fundamental obstacles to restructuring. The first is the tension between social and economic goals. Spreading benefits broadly among Alaskans has

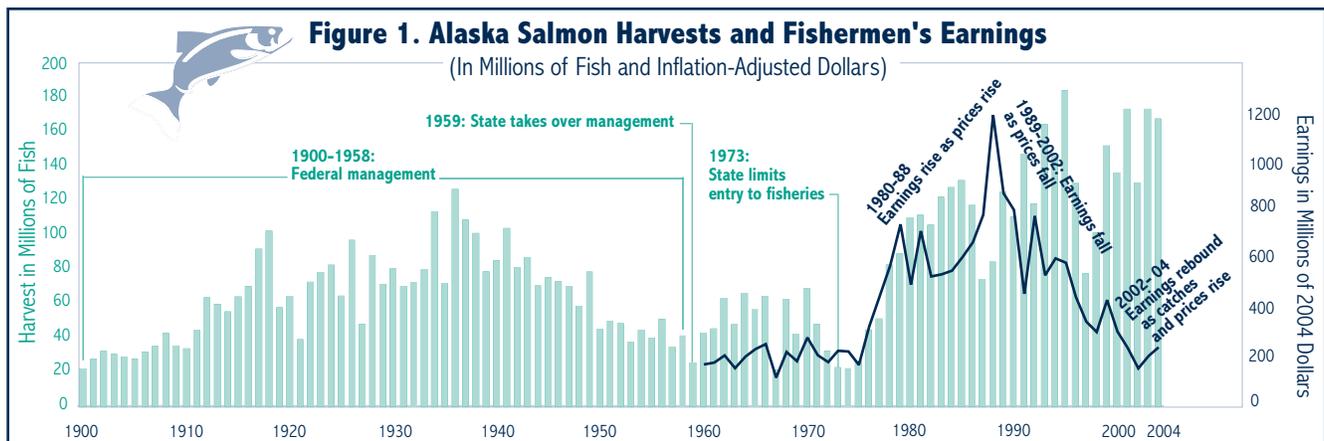
been an important management goal since statehood. But as the value of salmon catches shrinks, so do the benefits—and it gets harder to spread them broadly. The co-op is one way of making the fishery more profitable, but it also reduces the number of people fishing and spreads the benefits in a different way. Restructuring requires difficult choices about what kinds of benefits Alaskans want from the salmon fisheries—and who should get those benefits.

The second fundamental obstacle is that no organization in state government today has clear responsibility for the economic success of the fisheries, or clear and broad authority to make significant changes in the rules for salmon harvesting. As the court fight over the co-op shows, it's uncertain just how the Board of Fisheries can change the harvesting rules, or for what reasons. Only the Alaska Legislature can clarify that authority.

Besides those obstacles, other factors also make restructuring complicated and controversial. The fisheries are diverse; in every one there are different challenges and opportunities. Restructuring has far-reaching and sometimes uncertain effects. Not everyone will benefit; some people could end up worse off.

And finally, some Alaskans argue that restructuring isn't necessary at all, either because changes already underway will be enough to put the industry back on its feet, or because the problem will take care of itself, when those who can't make money quit fishing.

We disagree. Better marketing and new products are helping. Salmon prices in some fisheries have gone up in the past three years. But the underlying challenges of growing competition and changing global seafood markets remain. For Alaska's salmon fisheries to become and remain profitable, we will have to find ways of catching salmon at lower cost and raising the quality and value of the harvests.



OVERVIEW OF ALASKA'S SALMON INDUSTRY

Alaska's wild salmon harvests are the world's largest. They make up about 40% of wild salmon harvests worldwide and 15% of combined wild and farmed production. The salmon fisheries are part of a broader Alaska seafood industry that also includes groundfish, shellfish, halibut, and herring. But many fishermen, processors, and communities rely mainly on salmon.

The state government manages Alaska's 26 commercial salmon fisheries, under a system that includes several organizations that can make decisions affecting fisheries; constitutional provisions and laws that provide the framework for management; and a complex set of regulations implementing the laws (Figure 2). The state legislature has the ultimate management responsibility.

The diversity of the salmon fisheries makes any discussion of salmon issues complex. The state has five salmon species—pink, chum, coho, sockeye, and king—and different stocks of the various species return annually to hundreds of streams. Many types of boats and gear—seiners, trollers, and gill, drift, and set nets—harvest salmon in both coastal and river fisheries. In every fishery there are different issues, challenges, and opportunities.

The state controls the number of boats under a limited entry permit system and regulates harvests through restrictions on boat size, gear type, and timing of openings. Alaska's biological salmon management has been very successful; the Marine Stewardship Council (an international non-profit group promoting well-managed fisheries) has recognized Alaska's management as "sustainable."

The salmon industry is still one of Alaska's top employers, with thousands of jobs in fishing and processing and many more in other businesses that depend indirectly on salmon fishing.

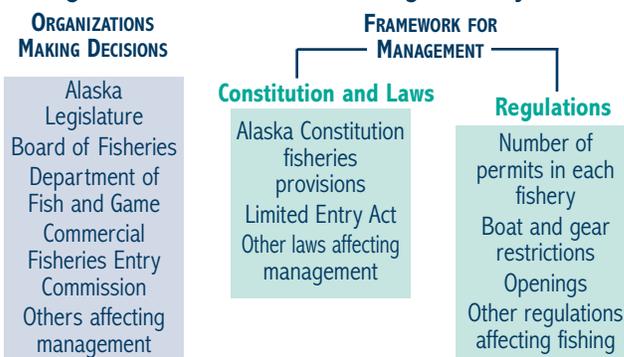
WHAT'S THE PROBLEM?

The prices fishermen are paid for their catches have plummeted. From the peak in the 1980s to the bottom in 2002, total annual earnings in the salmon fisheries plummeted by two thirds. And as salmon prices and fishermen's earnings fell, so did the value of limited entry permits. Overall permit values declined about two thirds, with losses varying among fisheries. And if we adjust those figures for inflation—to show the change in purchasing power over time—the fall in both earnings and permit values is even steeper, near 75%.

Unable to cover their costs, thousands of salmon permit holders—both residents and non-residents—quit fishing. But Alaskans have been hardest hit. The number of resident permit holders actively fishing dropped 40% between 1988 and 2002, compared with 27% among non-residents. The decline among Alaskans was bigger because the small-scale operators who are most affected by lower prices—set-netters and hand trollers—are predominantly Alaskans.

The causes of the decline are complex and vary by fishery. The biggest has been competition from farmed salmon, but smaller sockeye harvests, changes in the food industry, and an economic slowdown in Japan (historically Alaska's most important market)

Figure 2. Alaska Salmon Management System



have also contributed. Since hitting lows in 2002, total earnings are up—but not in all fisheries.

WHY RESTRUCTURE?

Restructuring can have many goals—but keep in mind that it is not an attempt to improve conservation: Alaska's salmon runs are healthy. The basic goals of restructuring are to lower the costs of harvesting salmon or increase the quality and value of salmon harvests—or both—by addressing problems that occur, to varying extents, in many of Alaska's salmon fisheries. These include:

- More boats fish than are needed, adding to costs.
- Fishermen compete to catch fish as fast as possible, making it difficult to handle fish carefully.
- Fishermen build faster and more expensive boats, trying to catch a larger share of the fish—raising total costs for the same overall catch.
- Fish harvests are concentrated in short openings rather than spread out over the season. Quality suffers when processors can't handle large volumes from short openings.

Some people argue that we don't need restructuring to deal with these problems—that they'll resolve themselves when fishermen who can't make money drop out. But under this "market forces" approach, fishermen who drop out may get nothing from their investments in boats and gear—and many are likely to start fishing again if market conditions improve. By contrast, buyouts or other restructuring options compensate fishermen for leaving the fisheries permanently.

Figure 3. Individuals Fishing Salmon Permits

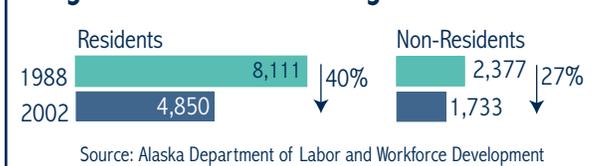


TABLE 1. LOSSES IN ALASKA SALMON FISHERIES, 1986-90 TO 2000-02 (In Million of Dollars)

	Not Adjusted			Adjusted for Inflation*		
	1986-90	2000-02	Decline	1986-90	2000-02	Decline
Average Annual Earnings	\$580	\$198	-66%	\$845	\$215	-75%
Value of Limited Entry Permits	\$882	\$304	-66%	\$1315	\$329	-75%

Source: Calculated from data of Commercial Fisheries Entry Commission *In 2004 Dollars

OPTIONS FOR RESTRUCTURING

Table 2 lists a few examples of the many possible restructuring options. We want to emphasize that we’re not advocating any specific change, and what makes sense will vary from fishery to fishery.

Most of the options would reduce the number of fishing boats—for instance, by establishing harvester co-ops (like the Chignik co-op); by allowing several permit holders to stack their gear on a single boat; or by buying some permit holders out of the fishery.

Some options are similar to what the federal government has done in the offshore fisheries it manages—making allocations to individuals, communities, or other groups. Those options are intended to end the “race for fish” and give fishermen the chance to improve the way they handle their catch.

All the options raise questions: Who would pay for buybacks? How much gear could be on a single boat? Would allocations be based on past catches, and if so, during what years? They also raise concerns about equity, job losses, administrative difficulties, effects on gear and boat value, and effects on processors.

Some would represent much bigger changes than others, and all would face legal, constitutional, and institutional challenges.

CHALLENGES OF RESTRUCTURING

If restructuring could help Alaska’s salmon industry compete, why has the harvesting system stayed essentially the same, after more than a decade of economic crisis? For several reasons:

- The salmon fisheries are diverse, with each facing its own issues.
- Restructuring is complex. There are many possible changes, each carrying its own potential benefits, design considerations, and concerns—as well as uncertainties. Rural communities, especially those that depend heavily on salmon, have specific concerns about effects of restructuring.
- There’s a long-standing tension between social and economic goals for the fisheries, and no consensus among Alaskans about what restructuring should accomplish—or who should benefit.

- No organization in state government has clearly defined responsibility for the economic success of the fisheries; clear and broad authority to make major changes in the harvesting system; and resources to study and take action on restructuring proposals.

It’s those last two obstacles—conflicting goals and lack of clear responsibility and authority—that pose the most fundamental challenges to restructuring, as we discuss below.

CONFLICTING FISHERIES GOALS

The multiple and sometimes conflicting goals of salmon management have their roots in territorial days. Under federal management, salmon runs plummeted (Figure 1), and processors based in Seattle controlled the fisheries, using salmon traps to take much of the harvest. Alaskans resented both the Outside control and the traps. They were also afraid overfishing would destroy the fisheries.

With statehood in 1959, Alaskans won control of the salmon fisheries. The state constitution includes several principles for fisheries management, reflecting Alaskans’ territorial experiences. Fisheries are to be managed for “sustained yield” and for the “maximum benefit” of Alaskans; they are reserved for “common use” with no “exclusive right or special privilege” to be created.

Those general principles are the basis for management—but they don’t clearly define management goals, or say how to rank the various goals. The clearest is conservation: managing for “sustained yield.” Alaskans agree conserving salmon resources is critical. The legislature has delegated conservation authority to the Alaska Board of Fisheries and the Alaska Department of Fish and Game and provided money to pay for research and regulation.

But there is no such clarity or consensus about how to manage for “maximum benefit.” For much of the time since statehood, achieving maximum benefit has meant spreading the fisheries wealth broadly among Alaskans. And the “no exclusive right or special privilege” provision was specifically intended to insure that fisheries benefits would be widespread—not concentrated among a few, as they had been under federal management.

TABLE 2. EXAMPLES OF POTENTIAL RESTRUCTURING OPTIONS FOR ALASKA SALMON FISHERIES

Option	Rationale	Examples of Potential Design Issues	Examples of Potential Concerns
Divide permit holders into groups that fish at different times	Reduces total boat and fuel costs	What is the basis for dividing permit holders into groups?	Fishing opportunities may differ between groups
Allow permit holders to combine operations and fish more gear from one boat (permit stacking)	Reduces total boat and fuel costs	How much gear do combined operations get to use?	Potential for participation by permits that would have gone unfished—thus increasing total gear use
Permit buybacks	Reduces boat and fuel costs	Which permits get bought out, and for what price? Who pays for buybacks?	Cost of buybacks Increased investment by remaining boats Decline in local ownership of permits
Harvester co-op allocations Community allocations Individual allocations	Ends “race for fish” and focuses effort on reducing costs and improving quality	Who gets the allocations? Are allocations transferable?	Consistency with constitutional “no exclusive right” provisions Managers’ ability to achieve and enforce allocations Administrative costs
Changes in boat restrictions Changes in gear	Reduces costs and enhances quality	Should restrictions be similar in different fisheries? Over what period are changes phased in?	Loss in value of original boats or gear Access to funding for new boats or gear

The harvesting system in many ways evolved to allow as many Alaskans as possible to work in the fisheries. But it's not enough to fish: fishermen also need to be able to make money. So another aspect of "maximum benefit" is economic: keeping the fisheries profitable. But there's a tension between spreading the wealth and keeping the fisheries profitable—because the more fishermen participate in a fishery, the harder it is for them all to make a living.

A big reason why the state hasn't taken any broad action toward restructuring so far is that Alaskans haven't resolved that fundamental tension. Restructuring generally tries to make the fisheries more efficient, but that efficiency often comes at the expense of fishing jobs. One of the arguments raised against the Chignik co-op is that it has eliminated jobs.

Alaskans haven't reached any consensus on what restructuring should accomplish—nor on who should benefit. For example, to what extent do Alaskans want to try to preserve jobs, especially for rural Alaskans with few other options? What is the state's obligation to current permit holders? Should permit holders who haven't fished recently be considered on the same footing with those who have fished? If we allocate salmon, what should be the basis for the allocations?

AUTHORITY FOR RESTRUCTURING

The second fundamental obstacle to restructuring—as the Chignik co-op makes plain—is the lack of clear authority. No state agency has (1) clear responsibility for the economic success of the fisheries; (2) authority that is clear enough and broad enough to allow it to make major changes in the harvesting system; and (3) adequate money and personnel to study restructuring options and put them into effect. Unlike for conservation, the legislature hasn't delegated clear responsibility or broad authority to the Board of Fisheries or the Department of Fish and Game to change salmon harvesting rules to achieve economic goals.

LESSONS FROM LIMITED ENTRY

Despite these considerable challenges, the state did make a fundamental change in the harvesting system in the early 1970s, when shrinking salmon runs collided with growing numbers of fishermen. At that time, there were no restrictions on the number of boats fishing for salmon. But with a major resource industry at risk—from both conservation and economic standpoints—the governor and the legislature took action. They asked voters to approve a consti-

tutional amendment (allowing an exception to the "no exclusive right" provision). The legislature passed the Limited Entry Act, based partly on recommendations of a special limited entry study group. A new agency was established to administer the program and issue a limited number of permits for each fishery.

The challenges facing today's salmon industry are different. But the history of limited entry shows that the state can make difficult and controversial changes in salmon management—when the governor and the legislature become actively involved.

CONCLUSIONS

It won't be easy to make changes in Alaska's salmon harvesting system. Not everyone will benefit; some people could end up worse off. But the costs of doing nothing are also high. Thousands of Alaskans have already seen severe losses in fishing income and in boat and permit values, and many have had to quit fishing for salmon. The fundamental challenges in changing the harvesting system will be:

- *Deciding how we want to balance economic and social goals for our fisheries*
- *Establishing clear responsibility for restructuring and broad authority to make changes—and supplying the necessary resources to study options and put changes into effect*

A Salmon Industry Restructuring Panel, established by the Board of Fisheries, is studying restructuring issues and will make recommendations to the legislature in 2006. No major restructuring will happen until the legislature itself acts, or gives some state agency clear authority to act. Salmon is no longer Alaska's dominant resource industry. But it remains a mainstay of many communities, and if the industry is to become and remain profitable, we need to face—and find ways of addressing—the complex, difficult issue of restructuring.

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A longer paper by the same authors, *Challenges in Restructuring Alaska's Salmon Fisheries*, is available from ISER (907-786-7710) for \$5 or at: www.alaskaneconomy.uaa.alaska.edu



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