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– John H. Dunnigan

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List of Acronyms

ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
ADFG	Alaska Department of Fish and Game
AFA	American Fisheries Act
AFPA	American Fisheries Promotion Act
AMT	Alternative Minimum Tax
ASMFC	Atlantic States Marine Fisheries Commission
BC	Bank for Cooperatives
BCF	Bureau of Commercial Fisheries
BPA	Bonneville Power Administration
BRD	Bycatch Reduction Device
BSA	Boating Safety Account
BSAI	Bering Sea/Aleutian Islands
CCF	Capital Construction Fund
CDC	Certified Development Company
CDQ	Community Development Quota
CFMC	Caribbean Fishery Management Council
CFRDA	Commercial Fisheries Research and Development Act
CFR	Code of Federal Regulations

CPA	Capital Preservation Agreement
CPUE	Catch Per Unit Effort
CRAB	Capacity Reduction and Buyback
CSFP	Central and South Florida Flood Control Project
CU	Capacity Utilization
CWPPRA	Coastal Wetlands Planning Protection and Restoration Act
DAS	Days At Sea
DEA	Data Envelope Analysis
DMU	Decision Making Unit
DOL	Department of Labor
DUA	Disaster Unemployment Assistance
EDA	Economic Development Administration
EEZ	Exclusive Economic Zone
EFP	Experimental Fishing Permit
EIDL	Economic Injury Disaster Loan
ENSO	El Nino/Southern Oscillation
ESAA	Emergency Supplemental Appropriations Act
ESA	Endangered Species Act
FAC	Financial Assistance Corporation
FAO	Food and Agriculture Organization
FAS	Foreign Agricultural Service
FCA	Farm Credit Administration
FCB	Farm Credit Bank

FCMA	Fishery Conservation and Management Act
FCR	Fishing Capacity Reduction
FCRDP	Fishing Capacity Reduction Demonstration Program
FCRI	Fishing Capacity Reduction Initiative
FCS	Farm Credit System
FEMA	Federal Emergency Management Agency
FFAC	Fishing Family Assistance Center
FFP	Fisheries Finance Program
FILRI	Fishing Industry Loan Restructuring Initiative
FLBA	Federal Land Bank Association
FLCA	Federal Land Credit Association
FLF	Fisheries Loan Fund
FMP	Fishery Management Plan
FOG	Fisheries Obligation Guarantee Program
FR	Federal Register
FSPA	Fish and Seafood Promotion Act
FTC	Fuel Tax Credit
FY	Fiscal Year
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GHL	Guideline Harvest Level
GMFMC	Gulf of Mexico Fishery Management Council

GNP	Gross National Product
GRT	Gross Registered Ton
HAL	Historical Annotated Landings
IATTC	Inter-American Tropical Tuna Commission
IFA	Interjurisdictional Fisheries Act
IPHC	International Pacific Halibut Commission
IRA	Individual Retirement Account
ITC	Investment Tax Credit
ITQ	Individual Transferable Quota
IWP	Internal Waters Processing
JV	Joint Venture
LLP	License Limitation Plan
MAFMC	Mid-Atlantic Fishery Management Council
MHI	Main Hawaiian Islands
MMA	Merchant Marine Act
MMPA	Marine Mammal Protection Act
MSFCMA	Magnuson-Stevens Fishery Conservation and Management Act
MSY	Maximum Sustainable Yield
MT	Metric Ton
NAFTA	North American Free Trade Agreement
NASCO	North Atlantic Salmon Conservation Organization
NEAP	Northwest Emergency Assistance Program
NEEAP	Northeast Emergency Assistance Program

NEFMC	New England Fishery Management Council
NMFS	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NPFMC	North Pacific Fishery Management Council
NPPC	Northwest Power Planning Council
NWHI	Northwest Hawaiian Islands
OECD	Organization for Economic Cooperation and Development
OPIC	Overseas Private Investment Corporation
PAL	Passive Activity Loss
PCA	Production Credit Association
PFMC	Pacific Fishery Management Council
RDA	Rural Development Administration
SAFE	Stock Assessment and Fisheries Education
SAFMC	South Atlantic Fishery Management Council
SBA	Small Business Administration
SDI	Salmon Disaster Impact
SFA	Sustainable Fisheries Act
SFRA	Sport Fish Restoration Account
SIC	Standard Industrial Classification
SK	Saltonstall-Kennedy
SPR	Spawning Potential Ratio
SWFSC	Southwest Fisheries Science Center

TAC	Total Allowable Catch
TC	Tonnage Class
TEA-21	Transportation Equity Act for the 21st Century
UCC	Uniform Commercial Code
USC	United States Code
USCG	United States Coast Guard
USDA	United States Department of Agriculture
USD	United States Dollar
USFCS	United States Foreign Commercial Service
USFWS	United States Fish and Wildlife Service
VMS	Vessel Monitoring System
VTS	Vessel Tracking System
WDFW	Washington Department of Fish and Wildlife
WPFMC	Western Pacific Fishery Management Council
WRDA	Water Resources Development Act
WSLB	Washington State License Buyout
WTO	World Trade Organization
WWF	World Wildlife Fund

Executive Summary

INTRODUCTION

In 1996, the Congress enacted the Sustainable Fisheries Act, which contained the most sweeping revision of federal fisheries law since 1976. During the debates leading to passage of the Act, a common catchphrase referred to "too many fishermen chasing too few fish." Complicating the "too many fishermen" issue is the oft-made allegation that government programs have over the years contributed to overcapacity in marine fisheries. Thus, the Act, in addition to all of its many conservation and procedural provisions, included a provision for a Task Force to study the role of the federal government in investment decisions in fisheries managed under the Magnuson-Stevens Fishery Conservation and Management Act.

> *STUDY OF FEDERAL INVESTMENT. – The Secretary of Commerce shall establish a task force comprised of interested parties to study and report to the Committee on Commerce, Science and Transportation of the Senate and the Committee on Resources of the House of Representatives within two years of the date of enactment of this Act on the role of the federal government in*
>
> *(1) subsidizing the expansion and contraction of fishing capacity in fishing fleets under the Magnuson Fishery Conservation and Management Act (16 U.S.C 1801 et. Seq.); and*
> *(2) otherwise influencing the aggregate capital investments in fisheries.*
>
> SFA 116 (b); MSFCMA sec 312,note

Thus, the charge of the Task Force was broadly to investigate the role of the federal government. The Task Force looked into a wide array of programs, and not just those of the National Marine Fisheries Service. It interpreted "programs" to include policies or other activities of the federal government. Noting that its work would be constrained by time and available resources, the Task Force limited scope of activity by focusing on those roles that it believed, based on the collective experience and judgement of the Task Force members, had been most significant. It is important to note that the statutory charge does not refer to "over-" capitalization, nor presume that government influence on capitalization, either increasing or decreasing, is either good or bad. The charge of the Task Force was to investigate all aspects of the issue.

CONCEPTS OF CAPACITY AND CAPITALIZATION

"Excess harvesting capacity" is one of the most difficult problems facing fishery managers today. Excess capacity usually causes biological overfishing and economic waste. Yet, the term "capacity" is difficult to operationally define and even more difficult to measure. The Task Force considered two definitions of capacity based on economic theory. In addition, the Task Force considered various approaches for calculating capacity given the types of data typically available for fisheries.

One definition of capacity offered by the Task Force is "the maximum potential output or level of landings that may be realized if only the fixed factors (e.g., vessel size, engine horsepower, and gear size) limit production." An alternative definition, one that is more consistent with economic behavior, is the level of landings or production consistent with some underlying economic goal or objective (e.g., maximum profits or minimum costs). Although both definitions are consistent with economic theory, they have different orientations. The first definition is termed a primal or technical definition, and the second definition is referred to as an economic-based definition.

The capacity chapter of the report also defines capitalization and capacity utilization in order to clarify confusion about overcapitalization and excess capacity. Using the primal or economic definition will allow a matching of capacity to the desired allowable limits such that the threat of overharvesting is reduced or minimized. Capitalization may be defined as the total dollar value invested in the capital stock. Capacity utilization may be defined as the ratio of observed production to optimum production. An economic approach to capacity utilization defines it as the ratio of the total cost associated with observed production to the total cost associated with the optimum production level. The Task Force used these because they offer sufficient flexibility for developing practical measures of capacity and capacity utilization subject to the data typically available for fisheries.

The Task Force also recommends that the empirical analysis of capacity and capacity utilization needs to consider the fishing activity of recreational anglers, an area of analysis that has been neglected in the past. While a measure of capacity in the recreational fishery may be difficult to estimate, the recreational catch must be considered when developing capacity measures for any fishery.

CONCEPT OF SUBSIDIES

In everyday parlance, a subsidy is the granting of money to an individual or firm by the government (as opposed to purchasing goods or services), presumably for a useful public purpose. Subsidies are not inherently good or bad. There are always some distributional effects of subsidies whereby some sectors of the economy are favored over others. Some subsidies that may have served a useful social purpose at one time may be less justified later. Each program must be evaluated on its individual merits.

The Task Force considered a number of alternative ways of looking at subsidies and found them inadequate for its analysis. However, it concluded that it would approach the concept of subsidies from the standpoint that a subsidy is a government action (or inaction) that potentially modifies (by increasing or decreasing) the potential profits earned by the firm in the short, medium or long term. When a firm's profits are enhanced, there will be a tendency by the firm to attempt to further enhance its profits by increasing its level of economic activity, that is, by expanding its output. This implies also expanding its capacity. In the case of fisheries, capacity would be expanded by increasing the number or capacity of fishing vessels and fish processing plants. Thus, the Task Force assumed that in general a subsidy, which leads to increased profits, potentially leads also to an increase in capacity.

The Task Force attempted to establish an exhaustive categorization of subsidy types in order to help structure its analysis, recognizing that many of these do not exist in the United States.

Direct government payments related to fisheries

- Direct expenditures of the government to the fishing industry that lower costs and therefore potentially increase the industry's profits.
- Direct payments can take many forms and serve many purposes, such as the health care assistance provided to fishing families in New England, or vessel buybacks.
- Gear conflict compensation programs that pay fishermen for gear losses due to foreign or U.S. fishing operations, or the oil industry.
- A compensatory subsidy arises when the United States pays foreign governments to permit U.S. vessels to fish in their waters.
- The payment by the United States of fines and penalties incurred by U.S. fishermen to foreign governments.
- Infrastructure expenditures directly related to fisheries, such as fishing port facilities, fish unloading facilities, or fishing vessel haulout or maintenance facilities.
- Unemployment insurance paid to fishermen.
- Direct government infusions of equity capital into fisheries companies.
- Government fishery loans, loan guarantees and insurance
- Mortgage insurance for the building or refitting of fishing vessels.
- Loans made to the fishing industry to finance the replacement and operation of fishing vessels, either directly by the government or indirectly under government guarantee, at less than market rates of interest, or on terms, such as amortization periods, that are more advantageous to the firm than those otherwise available.
- Loans to allow crew members of small fishing vessels to purchase individual fishing quota shares.

Implicit payments to, or charges against, the fisheries industry

- Government supported marketing efforts, where the cost is not charged back to the industry.
- Programs to enhance fish stocks through hatcheries or improvements in fish habitat.
- Government expenditures in support of a fishery, other than direct payments to the fishery, or loans or loan guarantees, which could be, or in other jurisdictions are, recovered

from the fishing industry.
- Profit-reducing costs imposed by government regulations or legislation.
- Government technology transfer programs that reduce the cost of introducing new gear.
- Loan guarantees to U.S. firms making investments in high-risk countries, such as those provided by the Overseas Private Investment Corporation, are subsidies to the extent that the participation and sponsorship of the U.S. government is essential to the success of the program.

Price support programs affecting fisheries
- Price support programs that affect fisheries through explicit government mandates that raise prices to consumers, for instance, through officially sanctioned marketing boards or through structures that support minimum prices.
- Tariffs are a traditional method of profit enhancement that raise the domestic price of competing foreign products, therefore allowing domestic producers to charge higher prices.
- Embargoes work as tariffs to keep prices that domestic producers can charge high.

General programs that affect fisheries
- Dredging and construction projects of the U.S. Army Corps of Engineers that may affect the profits of the fishing industry.
- Restrictions on U.S. vessel construction resulting from the Jones Act.
- Infrastructure expenditures that are not targeted to fisheries but which provide an advantage to the fishery, e.g., port facilities.
- Payments for disaster relief to compensate fishermen.
- Aid from the Small Business Administration, the Economic Development Administration, the Farm Credit Administration and similar programs.
- When the government subsidizes activities in non-fishing industries, the effects may negatively (or occasionally positively) affect the profitability of fishing firms.
- When the government collects a tax and distributes the proceeds for a public purpose (e.g., the Wallop-Breaux program), to the extent that the distributions increase profits in firms.

Tax policies
- Fuel Tax rebates to the fishing industry, to the extent that fuel tax revenues accrue to general government revenues.
- Programs such, as the Capital Construction Fund, which permit fishing vessel owners to defer income taxes, are subsidies, as are allowances for accelerated depreciation.
- General investment tax credits that affect profits and fisheries capitalization even though they are not targeted specifically to fisheries.

The Task Force believes, however, that this all-encompassing list should not imply that any of these types of programs do not serve a valid important public interest. In evaluating these programs, it is important to understand the purposes for which the subsidy was originally designed, the current relevance of that purpose, and the effectiveness of the subsidy in meeting that purpose.

HABITAT AND ECOSYSTEMS

Excess fishing capacity results both from expanding investments in fisheries, as well as from declining fish stocks that make existing capacity unusable. In many U.S. fisheries, fish stocks are either currently below historical levels, or may fall in the near future. In many cases, this is at least in part due to degraded or lost habitats. Well aware of this, Congress included in the Sustainable Fisheries Act requirements that fishery management plans describe and identify essential fish habitats for each species they manage, including adverse impacts from fishing and other activities. Pacific Northwest salmon, the Florida Everglades and Louisiana's coastal wetlands are well-known cases illustrating the loss of fish habitat. In each case, the federal government has played a role in causing the problem and is now spending large sums of money to be a major part of the solution. Because the effects of these expenditures will ultimately increase the profits of fishing firms, they fall within the Task Force's broad definition of subsidies.

It is essential from the Task Force's perspective that the fishing capacity effects of government policies and programs that degrade habitat, as well as those that try to reverse habitat loss, be fully understood and considered before implementing decisions and undertaking activities.

CAPITAL CONSTRUCTION FUND AND OTHER TAX PROGRAMS

Since the early 1970s, the Internal Revenue Code has allowed fishermen to defer income tax on profits from fishing if the money was set aside in a special account that would be used to purchase or reconstruct a fishing vessel. This has a dual purpose – to support the U.S. shipbuilding industry, and to provide for the accumulation of capital that would allow U.S. fishing fleets to become and continue to be modern and competitive. The effect of the program is to allow fishermen to set aside earnings, and allow those earnings to accumulate and grow, on a pre-tax basis, so that they can be used to purchase a new vessel or reconstruct a vessel as a replacement to the one that the fisherman is currently using. There are significant tax penalties if funds are withdrawn for a nonqualified purpose.

The Task Force received many comments concerning the Capital Construction Fund program, and devoted a considerable amount of energy to it. There is a clear perception in the fishing industry that existing CCF account balances are a major problem today, creating too much pressure to make new capital investments in fisheries at a time when they are perceived not to be necessary. The public policy implications of the program have not been seriously examined for many years, and the state on which they are considered has changed dramatically.

The Task Force came to a number of conclusions and recommendations concerning the Capital Construction Fund Program. (The following points were supported by 14 of the 22 members of the Task Force. Separate statements of other Task Force members may be found in ChapterVI of the report.):

1. The Task Force concludes that CCF has contributed to capital investment in US fisheries. It is however, impossible to measure the impact of CCF with any precision because of a lack of adequate data. The Task Force recommends that any revised CCF legislation require a data gathering operation to permit the proper evaluation of the revised CCF program.

2. The Jones Act, by requiring the building and refurbishing of US fishing vessels in the US, imposes a negative subsidy on fisheries. In the interest of fairness to US fishermen, positive subsidies to offset the negative subsidies are necessary. The CCF program should be modified to provide this offset, or a new program can be implemented to accomplish the purpose. Alternatively, the appropriate part of the Jones Act can be modified.

3. The SFA establishes the framework of current fisheries policy with an emphasis on conservation, and a mandate to limit fish catching capacity to levels consistent with the sustainability of fish stocks. CCF should therefore no longer be permitted to finance the building, rebuilding or refitting of fishing vessels other then the offset described in #2 above.

4. Fishing vessel owners have been placing money in CCF funds to finance the building, rebuilding and refitting of fishing vessels. Since under #3 above, such activities should no longer be possible with CCF funds, fairness requires that holders of CCF accounts be permitted to withdraw any portion of their CCF funds under favorable tax treatment, such as the funds being taxed at their CCF holder's current marginal tax rate. The withdrawal of funds under these favorable conditions should be a one-time option, with Congress setting both a deadline date for making the election and a cut-off date defining those funds which can be withdrawn under these favorable conditions.

5. In addition to the offset of # 2, CCF funds may be used for such purposes as fishing vessel safety upgrades, training, research, buyouts, IRA rollover, quota purchases, and other projects that do not tend to increase fishing capacity.

6. Congress should set a limitation on the maximum amount any firm or individual can accumulate in CCF funds.

7. In order to keep them from being recycled back into the fishery, funds received from a vessel buyback program should not be allowed to be deposited into a CCF account, except:
    a. In the case of a qualified, one-time withdrawal as allowed in #4; or
    b. When the funds are rolled into an IRA as provided in #5.

In addition to CCF, the Task Force gave extensive consideration to the effect that other tax policies had on the growth of fishing capacity in the 1970s and 1980s. In particular, it is apparent that the investment tax credit created a significant incentive to make investments in new capital assets. This was an opportunity that was available across the entire U.S. economy, and it is apparent that the fishing industry took full advantage. Essentially, the tax laws allowed a credit against taxes of up to 10% of the cost of capital acquisitions. Other significant tax provisions that were important in fisheries related to foreign sales corporations and accelerated depreciation. Unfortunately, no helpful data were found by the Task Force to quantify the effect of these

provisions. More significantly, most of the major provisions were repealed by the 1986 tax reform legislation. Thus, while the Task Force members believed that these policies were a major contributor to the inflows of capital to many fisheries, if not the single most important factor in overcapacity, it appears that there is little that anyone could or should do today in response to these programs.

FISHERIES OBLIGATION GUARANTEE PROGRAM

The Fisheries Obligation Guarantee Program has been known by many names over the years. It grew out of the Fisheries Loan Fund in the Fish and Wildlife Act of 1956, became a mortgage insurance program, and then grew into the Fishing Vessel Obligation Guarantee Program. Later the program was expanded beyond fishing vessels and became the Fisheries Obligation Guarantee Program. The Sustainable Fisheries Act transformed the program significantly; it is now called the Fisheries Financing Program. For the sake of the ease of familiarity, the Task Force called the program by its former name, the Fisheries Obligation Guarantee Program, or, FOG.

Under the program, the full faith and credit of the United States is pledged as a guarantee for a loan made to a fishing firm for acquisition of a capital asset, e.g., a fishing vessel or processing plant. Although under FOG the lender was a private entity, the National Marine Fisheries Service staffed the processing of the loans and often found the lender for the case. The program charged a fee, which over the history of the program has been more than sufficient to cover any losses from defaults.

The Task Force looked closely at a number of instances where the FOG program either played or was perceived to play a role in developing overcapacity, including the Gulf of Mexico shrimp fishery, the New England groundfish fishery, and the U.S. Pacific tuna fishery.

The Task Force came to a number of conclusions and recommendations concerning the FOG program:

1. As a general rule, lack of private financing was not a limiting factor in expanding and modernizing fishing fleets. Rather, FOG provided a more favorable financial basis for qualified fishermen to do so.

2. Together with investment tax laws and such policies as Americanization of fisheries within the U.S. exclusive economic zone, FOG has increased investment and fleet capacity.

3. FOG's impact has changed over time.

4. FOG's impact has largely been concentrated in a few regions and fisheries.

5. The main benefit of the program to a borrower is the longer amortization period that risk-

averse private lenders will not assume.

6. The scope of the FOG/Fisheries Financing Program should change to reflect the new direction of federal fisheries policy. Congress should end support for the construction and reconstruction of vessels. Instead, the program should focus on activities that directly assist in the transition toward reduced fleets, as through vessel buyback programs, bycatch reduction, and improved gear selectivity.

7. Congress and NMFS should establish a process to consider the future role of FOG in financing vessel construction and reconstruction, particularly in underutilized fisheries where overcapacity is not a problem. These future uses should be crafted in a precautionary manner that is consistent with regional conservation and management objectives.

BUYBACK PROGRAMS

For most of the last half of this century, the federal government has had one program or another that assisted in bringing new capital into the fishing industry. In only the past few years have there been efforts to actively remove capital from the fishing industry. The Task Force believes that these programs are both promising and challenging; but must be carefully designed and implemented. These programs have been carried out in the Pacific Northwest, Alaska, the Gulf of Mexico and New England; and more buyback efforts are under way, including efforts for industry-funded buybacks under the Sustainable Fisheries Act.

The efficacy of buyback programs needs to be looked at in the context of the current fisheries policies for the affected fisheries. A major problem in all buybacks is latent effort. Little is achieved if the effort that is removed in a buyback program is simply replaced by effort that had been underutilized. Another major concern is leakage; that is, vessels owners who sell back their permits in a fishery simply have their effort diverted to other fisheries. There is also a concern of the effect these programs have even while they are being discussed and developed. Some fishermen alter their behavior, such as by staying in a fishery longer than they would have otherwise, in anticipation of some financial gain from the buyback program. Government funding of buybacks can be justified. First, they are a form of social insurance, for example, a type of disaster relief. Second, they compensate fishermen for mismatches between resource availability and fishing capacity that are caused by extraneous factors, e.g., market failures or international trade decisions. Third, the government has a fundamental governance responsibility to assist fishermen to reshape fisheries in the public interest, as defined by national policy such as that articulated in the Sustainable Fisheries Act.

What is essential is that buyback programs are designed carefully with clear objectives, and understanding the likely responses of the fishing firms that will be affected. This is true whether government funds the program, by industry, or by some combination of the two.

WALLOP-BREAUX

The most notable fisheries assistance program targeted to recreational fisheries is the Federal Aid in Sport Fish Restoration Act, commonly known as the Wallop-Breaux Program. Under Wallop-Breaux, excise taxes are collected by the federal government and distributed according to specific statutory formulas for various types of programs. The largest use of these funds is to support projects carried out by state fisheries agencies, which receive funding according to a preset formula. The program is prominently considered a "user pay" program, and has over the years enjoyed the strong support of the industries and fishermen who pay the excise tax. The effect of the program is to allow fishermen to contribute specifically to programs aimed at restoring sport fisheries.

Although it is a user-pay program, the Wallop-Breaux program falls within the Task Force's definition of a subsidy. Although the program involves no net cost to the federal government, by improving recreational fisheries, their habitat, and access to them, the Wallop-Breaux program intends to make recreational fishing more attractive. Beyond the Wallop-Breaux program, in fact, it is the policy of the United States to promote recreational fishing. All of this leads both to an expansion of the recreational fishery, and also the profits of the firms that supply recreational equipment and other industries that support recreational fishing. In its broadest sense, however, the positive subsidy of fund expenditures is partially counter-balanced by the negative subsidy of the taxes.

Unfortunately even basic concepts of fishing capacity and what it means to recreational fisheries are not very well understood. The Task Force recommends that NMFS and USFWS place greater emphasis on studies of recreational fisheries, including capital, capacity and fishing effort; and encourages state fish and wildlife agencies to use their Wallop-Breaux funds to study these matters as they are reflected within the states.

OTHER PROGRAMS

The Task Force gave some consideration to a number of other programs that it believed were of lesser importance in influencing aggregate capital investment in the fisheries.

DISASTER RELIEF. Several federal agencies have the statutory authority to provide funds for fisheries disaster relief programs. Although disaster relief is usually not intended as a mechanism for capacity reduction, many of these programs affect the levels of capacity in our nation's fishing fleet. Because of the difficulty with analyzing these types of effects, many of the conclusions and policy recommendations regarding the effect of these programs on fleet capacity will be qualitative rather than quantitative. In addition to these positive effects on capacity, some of these disaster relief programs could arguably exacerbate an already overcapitalized situation. Direct loan payments and loan restructuring may have the effect of

keeping otherwise marginal operations functioning well above normal. This can provide an incentive for fishermen to remain in a fishery when all other factors would indicate that they should not continue fishing operations.

SMALL BUSINESS ADMINISTRATION. Created by Congress in 1953, the Small Business Administration (SBA) was established to provide financing, training, and advocacy to small businesses otherwise unable to secure financial assistance through normal private lending channels. Although the Agency has no direct lending or grants, SBA guarantees loans, that are distributed through the private sector to small businesses. Currently, the SBA has a portfolio guaranteeing over $27 billion in loans to more than 185,000 small businesses. In the fisheries sector, the SBA operates both the Section 7A Loan Guaranty Program and the Section 504 Certified Development Company (CDC) Program. Also available to the fishing industry, the SBA operates the Economic Injury Disaster Loan Program (EIDL) and the Fishing Industry Loan Restructuring Initiative (FILRI).

Because SBA loans money for processing facilities and vessel purchases, it is not difficult to conclude that these programs have contributed capacity to the fishing industry. In addition, SBA loan proceeds can also be used to recondition older vessels, purchase gear, and buy equipment. With few restrictions on the use of these loan funds to the fishing industry, these programs have allowed capacity to enter our fisheries and have probably stimulated capital investment. Although it is not difficult to make these broad conclusions, it is, however, quite difficult to accurately quantify the overall effect of these programs on the level of capacity in U.S. fisheries. There is no way to ascertain from the SBA database the amount of money used for direct capital expenditures, how much went to processing, or how much was used to buy new boats. One can conclude with a fair degree of accuracy that most of this money probably was used for projects that increased fishing capacity. However, it is not known whether or not the availability of SBA loans influenced an individual's decision to invest in fisheries.

ECONOMIC DEVELOPMENT ADMINISTRATION. The Economic Development Administration (EDA) was created in order to create new jobs and retain existing jobs in economically stressed communities. Through a series of grant programs, EDA helps distressed communities develop strategies to improve their own economic situation through a multi-faceted cooperative effort. EDA programs include: the Public Works Program, Economic Adjustment Program, Planning Programs, Technical Assistance Programs, University Center Programs, Research and Evaluation Programs, and Trade Adjustment Programs.

It was difficult for the Task Force to estimate the effect that these programs have had on the level of capacity in the fishing industry. Most of the proceeds from EDA projects affecting the fishing industry has been used for port and harbor development. While these projects may affect the fishing sector, benefits to the fishing industry from port development may only be ancillary and not necessarily intended for that purpose. Because of this, it is impossible to determine the effect that these expenditures have had on the overall expansion or contraction of fishing capacity.

FARM CREDIT SYSTEM. The Farm Credit System (FCS) was created in 1916 when Congress established the authority for the formation of the Federal Land Banks. Now the oldest of the government sponsored enterprises, the FCS is a network of borrower-owned institutions whose goal is to provide the agricultural sector with a sound source of credit at competitive interest rates. As of January 1, 1997, the FCS was comprised of 225 banks and associations which include the following: Six Farm Credit Banks (FCB), which make direct, long-term loans through 60 Federal Land Bank Associations (FLBA), and provide loan funds to 65 Production Credit Associations (PCA); 56 Agricultural Credit Associations (ACA), and 31 Federal Land Credit Associations (FLCA). The Farm Credit Administration (FCA) is an independent federal agency responsible for regulating the banks and associations of the FCS. The Farm Credit Act of 1971, as amended, authorizes the FCA to regulate the FCS to ensure compliance with applicable law and to maintain sound banking practices.

Although the lack of data prevented the Task Force from determining the exact impact of FCS loan activity on fishing capacity, it is obvious that these loans have contributed capacity to U.S. fisheries. Data deficiencies do not allow for the Task Force to determine how much FCS loan money was used for new vessel construction, vessel repairs, or processing operations. It is also unknown whether the availability of FCS loan funds influenced a person's decision to invest in fisheries. Recent data suggest that the FCS is still contributing a significant amount of money to the aquatic sector, most of which will ultimately increase the capacity of our nation's fishing fleet.

FISHERIES DEVELOPMENT, MARKETING, AND PROMOTION PROGRAMS. The United States has a long-standing record of providing marketing, promotion, and development assistance to the nation's fisheries. Throughout this century the federal fisheries agency has played a key role in fisheries development, fishing gear technology development, seafood processing technology, seafood product marketing, and seafood consumption promotion. Currently, the Departments of Commerce and Agriculture (DOC and USDA) are the principal federal departments dealing with fisheries development, marketing and promotion activities. Within the DOC, the National Oceanic and Atmospheric Administration's (NOAA) National Marine Fisheries Service (NMFS) is responsible for various programs related to the development of the domestic seafood industry. NMFS coordinates with another DOC agency, the U.S. and Foreign Commercial Service (USFCS) to expand exports of U.S. seafood products. The USDA is the primary agency responsible for aquaculture products and its Foreign Agriculture Service (FAS) is responsible for developing foreign markets for U.S. seafood products. These government-supported programs whose costs are not charged back to the fishing industry are subsidies. To the extent that these programs have promoted development of underutilized species and expanded demand for U.S. fishery products while reducing research, development, marketing, and other costs to the seafood industry, some of these programs have contributed to increased investment and capacity in the U.S. fishing industry. This effect, however, is extremely difficult to quantify.

SALTONSTALL-KENNEDY ACT. Perhaps the most direct flow of federal monies towards fisheries development, marketing and promotion has stemmed from the Saltonstall-

Kennedy (S-K) Act of 1954 which authorized a grants program to develop and promote fisheries products and to conduct technological, biological, and other research pertaining to American fisheries. Administered by the National Marine Fisheries Service, the S-K fund is capitalized through annual transfers from the USDA to the DOC in amounts equal to 30 percent of the duties levied on imported fish and fish products. Most of the S-K funds are allocated as an offset to the NOAA budget, but a portion funds a competitive grants program, although some of the funds go towards NOAA's national research program as well as to offset NOAA's costs related to operations, research and facilities. During the period 1980-1998, total S-K grants awarded averaged $6.7 million annually with a high of $12.1 million in 1980 and zero funds allocated in 1997. However, during the time that the S-K fisheries grant program has been in effect there have been substantial shifts in the program emphasis. These shifts are apparent in examining the funding amounts to the various priority areas over the years.

One of the more clear examples of the federal role in subsidizing fisheries development can be documented by examining annual S-K funding for underutilized fisheries development in various regions of the U.S. The development of many once underutilized fisheries, notably squid and dogfish in the northeast and mid-Atlantic regions and Pacific albacore, Pacific whiting and Alaskan pollock on the West Coast can be partially attributed to the technology development and market research and promotion funded through the S-K program. Some of this research was highly successful in developing markets and fisheries for these species (*e.g.*, squid, dogfish Pacific whiting, Alaskan pollock), while some was not (*e.g.*, Atlantic mackerel).

USDA FOOD AID PROGRAM. The Food for Peace Program, also known as the P.L. 480 Food Aid Program, provides for government to government sales of agricultural and seafood commodities to developing countries. The U.S. government purchases large quantities of agricultural and seafood products and then sells them on favorable credit terms or donates the food to countries experiencing food shortages. While the program is aimed primarily at U.S. agricultural products, fisheries products have benefited as well. For example, the program purchased $1.6 million in Alaskan pollock frozen nuggets in 1981-1982, $32.6 million in canned tuna and salmon in 1991-1992, and $20.3 million in salmon nuggets and frozen catfish in 1996-1997. To be eligible, a particular food commodity must be classified as a surplus commodity.

USDA SCHOOL LUNCH PROGRAM. The USDA also buys various seafood products for its school lunch program. Recently the USDA announced that it would buy $8 million of canned pink salmon for distribution to food assistance programs, $1 million of skinless, boneless pink salmon in four-pound pouches, and $1 million of chum salmon nuggets for wider testing of their acceptability in the National School Lunch Program.

FOREIGN AGRICULTURE SERVICE. The U.S. Foreign Agriculture Service (FAS) oversees several programs that support international trade in fisheries products. The FAS Market Access Program finances promotional activities for U.S. agricultural and fisheries products, including consumer promotions, market research, technical assistance and trade services. In

1997, the program gave nearly $4 million in funding to promote fishery exports. The FAS Foreign Market Development Program focuses on the development, maintenance, and expansion of long-term export markets for U.S. agriculture and seafood programs. The FAS Emerging Market Program aims to develop maintain and expand markets for U.S. agricultural and fisheries products in emerging markets.

NATIONAL FISH AND SEAFOOD PROMOTION COUNCIL. The Fish and Seafood Promotion Act (FSPA) of 1986 (P.L. 99-659) authorized the establishment of a National Fish and Seafood Promotional Council to carry out generic seafood marketing programs including consumer education and research. The FSPA was intended to provide funding for a limited time period as seed money that would grow into an industry-funded national marketing council similar to those in place for the beef and dairy industries. This fund was capitalized through monies transferred from the S-K fund. During the life of the program, 1987-1991, $10.4 million was appropriated. Most of these funds were dedicated to the development and implementation of the "Eat Fish Twice a Week" national seafood advertising campaign to increase seafood consumption. After 1991, funding to the Seafood Promotion council ceased and the Council disbanded. No industry funded national seafood marketing council has arisen from this effort.

SEA GRANT COLLEGE PROGRAM. In order to develop and conserve the nation's marine and Great Lakes resources, Congress established the Sea Grant Program in 1966 with the passage of the National Sea Grant College and Program Act. The program resulted from the realization that our marine resources were largely underutilized and a source of great potential benefit for the United States. The marine environment could provide economic and employment opportunities, reliable sources of food, and recreational and aesthetic uses. The program was designed to award grants and contracts to "suitable public and private institutions of higher education, institutes, laboratories, and public or private agencies, which are engaged in, or concerned with, activities in the various fields related to the development of marine resources." (P.L. 89-688 Sec. 204(c)) The legislative charge is also to "increase the understanding, assessment, development, utilization, and conservation of the nation's ocean and coastal resources by providing assistance to promote a strong education base, responsive research and training activities, and broad and prompt dissemination of knowledge and techniques. "(P.L. 94 461, Sec. 202(b)). The Sea Grant Program currently focuses on three major themes: economic leadership; coastal ecosystem health and public safety; and education and human resources.

Because the majority of Sea Grant funds are used for research, education and outreach activities, the Task Force believes that this program has not significantly and directly contributed to the level of capacity in our Nation's fishing fleets. The Sea Grant program has not financed new vessel construction, nor has it been used to recondition existing vessels.

IN GENERAL. The Task Force concluded that federal investment in fisheries development, marketing and promotion programs have had a direct role in the build up of capital and capacity in some U.S. fisheries. This impact, however, is impossible to quantify in

any exact way. The Task Force recommends that the federal government limit the funding of such programs to be consistent with the conservation oriented national policy goals. In particular, priorities for S-K grant funding and other federal marketing, research, and development programs should be set to avoid exacerbating the current overcapacity problem now facing the nation's fisheries.

PROGRAM DATA

Throughout its proceedings, and running as a theme through this report, the Task Force constantly came up against data limitations. The available data are simply not adequate to permit proper empirical analysis of the various government programs that affect capacity in the fishing industry. The Task Force recommends that when legislation establishes or funds programs affecting the fishing industry, part of the mandate and budget authorization shall place proper emphasis on the generation of adequate data to permit the quantitative evaluation of the capacity and subsidy effects of the programs.