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The Impact of the Capital Construction Fund on the Rhode Island Commercial Fishing Industry

Paul R. Helland

University of Rhode Island

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THE IMPACT OF THE
CAPITAL CONSTRUCTION FUND
ON THE RHODE ISLAND
COMMERCIAL FISHING INDUSTRY

BY
PAUL R. HELLAND

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF
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MASTER OF ARTS THESIS
OF
PAUL R. HELLAND

APPROVED:
Thesis Committee
Major Professor

DEAN OF THE GRADUATE SCHOOL

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1990
ABSTRACT

The impact of the Capital Construction Fund, a tax deferral program utilized for the construction of fishing vessels, is examined in the context of Rhode Island's fishing industry. It was believed that the Capital Construction Fund contributed to overcapitalization, was an incentive to purchase a vessel, and was mainly used by individuals targeting underutilized species.

Indicators of capitalization such as number, size, and ages of vessels owned were gathered from the owners of vessels home-ported in Rhode Island during personal interviews. Responses of those that have used the Program were separated from those who have not. A frequency analysis was utilized to determine if there were differences between the two groups regarding indicators of capitalization. Few major differences were found between the two groups. Thus, it was determined that the Capital Construction Fund does not contribute to overcapitalization, is not an incentive to purchase a new vessel, nor is it used predominantly by vessels that target underutilized species, in the Rhode Island fishing industry.
ACKNOWLEDGMENTS

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CHAPTER I

INTRODUCTION

Statement of the Problem

Considerable concern exists regarding overfishing and overcapitalization (McLaughlin, 1987). Nationally, commercial fishing has been in decline since 1980, when the catch reached a record high of 3.65 billion pounds (McLaughlin, 1987). Fishermen on Georges Bank, one of the main New England fishing grounds, are yielding catches that are half what they were ten years ago and less than a quarter of their 1960 levels (Gold, 1989). Haddock landings from Georges Bank declined 83 percent from 1980 to 1988 while yellowtail flounder catches slid 70 percent and cod 60 percent (Fitzpatrick, 1990).

Landings of winter flounder from Southern New England and Mid-Atlantic areas dropped from 11,600 metric tons in 1981 to 5,200 metric tons in 1987. In an attempt to fend off the commercial extinction of this fishery, the Rhode Island Department of Environmental Management (RIDEM) has increased the minimum size limit on blackback flounder (Dawson, 1990).
Declining fish stocks and increasing fishing effort has led the New England Fisheries Management Council to search for "new directions" in management techniques (Marine Fish Management, February 1989). In an attempt to create a greater emphasis on long term viability of fishery resources and industries, the National Oceanic and Atmospheric Administration (NOAA) issued rules that ask all regional fishery councils to define "overfishing" for each managed species (Salit, 1989). The rules' short-term goal is to produce more restrictive regulations for overfished stocks, while rebuilding stocks is a long-term goal (Salit, 1989).

Concomitantly, some species of juvenile groundfish appear to be at their highest levels since the late 1970s and early 1980s and stocks of traditionally underutilized species appear to be abundant. During surveys conducted in September and November of 1989, federal biologists found that the 1987 year class of haddock is the largest since 1978; two to four year old cod could be leading the way to recovery for that species; and two year old yellowtail flounder showed up in the largest amounts since 1983 (Salit, 1990).

Currently, whiting, ling (red hake), mackerel, spiny dogfish, skate, and Illex squid are considered under-utilized; and Loligo squid, ocean pout, and butterfish are considered moderately exploited off southern New England (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988). In several cases, there are no
markets that utilize these species in a volume that would warrant extensive targeting. The experimental small mesh fishery for whiting as well as 1990 joint ventures for mackerel in federal waters off the Mid-Atlantic states and for herring in Massachusetts and Rhode Island state waters indicate a surplus of these species. Despite the comparative abundance of the more underutilized species, they are still not as abundant as they have been in the past.

Modern fishing technology has led to more efficient means of catching fish. Its use, however, has been accompanied by significant decreases in the catch per unit effort. Excessive catch capacity, more commonly called overcapitalization, usually leads to overfishing. Fishermen are concerned about the availability of the existing resource being cut into smaller pieces, as well as the shrinking of the resource's total size (Bainton, et. al., 1987).

One reaction to overcapitalization by fisheries managers and policy makers has been to attempt to limit entry or effort. Several tools are available to control entry and effort in the fishing industry. Among them are landing taxes, fishermen quotas, effort share licenses and effort taxes (Bainton, et. al., 1987). Landing taxes are fees assessed against a fisherman's catch. This tax reduces the net price fishermen receive for their effort, thus
lowering profitability and thereby reducing the incentive to invest in or enter into the industry. Quotas are limits put on the amount of fish that can be caught either over a given period of time or by an individual vessel. Effort share licenses restrict the level of fishing effort by limiting the number of fishermen, boats, gear, or time on the fishing grounds. Effort taxes are taxes placed on boats and equipment. Such taxes increase operating costs, thus reducing desire to enter the industry. Negative effort taxes (subsidies) have the opposite effect. They reduce operating costs and encourage investment in the industry. An example of a negative effort tax in the fishing industry today is the Capital Construction Fund (CCF) (Bainton, et al., 1987).

Legislative language of the CCF is contained in section 607 of the Merchant Marine Act of 1936 as amended by the Merchant Marine Act of 1970. Originally, the only vessels eligible for this type of program were cargo liner ships that were already receiving government subsidies. The Merchant Marine Act of 1970, however, amended most of the provisions of section 607 by extending eligibility to include any U.S.-flag vessel built in the U.S. and owned by a U.S. citizen. Under the 1970 Act, the CCF could be used to build vessels engaged in the foreign, Great Lakes, or noncontiguous domestic trades or the fisheries of the United States.
The Magnuson Fishery Conservation and Management Act of 1976 (MFCMA) was passed in an attempt to control the immense fishing effort of other nations and to conserve stocks off the U.S. coast. This Act created a 200 mile Fishery Conservation Zone (FCZ) in which the U.S. has management authority. The MFCMA has since been amended in that the FCZ is now the Exclusive Economic Zone (EEZ). Nationals of foreign nations may still fish in the zone, but they must get U.S. permission, are subject to U.S. laws, must pay a fee, and can only take an amount that is stipulated by the U.S. government.

The MFCMA effectively phased out direct foreign fishing. In order to increase the domestic catch of fish in its FCZ, the U.S. government encouraged expansion of the U.S. fishing industry by offering technical and financial assistance (Stutz, 1984). Making fishing vessels eligible for many of the programs in the Merchant Marine Act can provide a means of expanding and maintaining a modern U.S. fishing fleet as well as supporting U.S. shipyards (Kueckelhan, 1987). However, since 1970 the number of vessels in the U.S. fishing fleet have expanded to the point where many fisheries are currently overcapitalized. Thus some argue that these programs "have had their purpose and no longer fit into the scheme of things" (U.S. Congress, House, 1989, Hearing 101-13).
The Capital Construction Fund

The CCF is a tax-deferral program to aid vessel owners in the construction of more modern vessels. The Program is open to any U.S. citizen who owns or leases a U.S. built fishing vessel of at least two net tons. Owners enter into these agreements with the Secretary of Commerce through the National Marine Fisheries Service (NMFS). Owners agree to deposit earnings from their current vessel (the Schedule A vessel) into a CCF for a designated number of years. The total amount that can be deposited into a CCF is equal to 100 percent of taxable income from vessel operation; 100 percent of vessel depreciation; 100 percent of the net proceeds from the sale or other disposition of vessel; and/or 100 percent of the earnings from investment or reinvestment of amounts deposited (NOAA, no date). The vessel owner determines the amount to be deposited, but the minimum annual deposit is 2 percent of the estimated cost of all Schedule B projects; or if 2 percent is more than the vessel owner's taxable income, one half of the vessel owner's taxable income must be deposited (NOAA, no date). The money in the CCF will then be used to construct, reconstruct, or acquire a new vessel (the Schedule B vessel) at the end of the agreed time. Monies deposited into the account, as well as the earnings of the account, remain tax free as long as they are used to construct, reconstruct, or acquire a Schedule B vessel. It is possible to operate a vessel that is both Schedule A and B. This occurs when
vessel owners invest earnings from their vessel into a CCF, then withdraw funds from their CCF to pay off the mortgage on the same vessel that is investing revenue in the CCF. The vessel is Schedule A because it is earning the money to put in the CCF, but it is also Schedule B because the money is withdrawn to pay its own mortgage. These types of vessels are hereafter referred to as Schedule A-B vessels.

If funds are withdrawn from the CCF for any other purpose, the withdrawal is said to be nonqualified and the amount is applied to the owner's taxable income for the year it is withdrawn and a withdrawal penalty is also assessed. Taxes are recovered by the government by reducing the tax-base of the vessel that was constructed, reconstructed, or acquired with CCFs. This reduced tax base reduces the depreciation deduction, causing the owner's taxable income to increase. Thus, the CCF is, in effect, an interest free loan from the federal government (NOAA, no date).

Opposition to the Capital Construction Fund

Opponents of the CCF argue that most fisheries are fully developed, and in some cases overcapitalized (Studds, 1989). They also contend that the financial climate of the industry has changed significantly since the origin of the Program, resulting in availability of private funding and reducing the need for federal assistance (Studds, 1989). Additionally, adversaries maintain that the CCF Program is an incentive to invest in the industry beyond that which
would normally occur; CCF vessels target fully utilized species; and CCF vessels are just as likely to violate conservation regulations as non-CCF vessels (Austin, 1989). Furthermore, studies have shown that contractionary tax policy is an effective tool in limiting entry into fisheries and, thereby controlling the problem of overcapitalization (Tettey, et. al., 1986). Finally, many opponents feel that the government should not be in the tax shelter business and that those funds could be used more effectively in supporting the industry elsewhere, such as in enforcement (Austin, 1989). Some believe tax deferrals are a poor method of subsidization which, in their opinion, should be programmed through direct appropriations to control the amount of money going into them (U.S. Congress, House, 1970, Hearing 91-23).

Schedule A and Schedule B vessels could potentially be contributing to overcapitalization in several ways. Overcapitalization may result if the CCF significantly reduces current capital costs under certain conditions; forces fishing vessel owners to remain in the industry when they may prefer to exit; causes increases in the total number of vessels in a fishery; generates increases in the total vessel tonnage in a fishery; or results in increases in the efficiency of the fleet.
Schedule A vessels

Schedule A vessels may potentially contribute to overcapitalization in two ways: 1) by significantly reducing capital costs, and 2) by keeping fishing vessel owners in the industry when they may prefer to exit. First, the CCF may be acting as a short-term fix, prolonging the use of Schedule A vessels in the industry when they might have otherwise exited. Tax deferment reduces capital costs and may, in the short-term, allow the vessel to remain in the industry when it might have been forced out under unfavorable economic conditions. Unfavorable economic conditions could include any individual or combination of circumstances such as low prices, low fish catches, or high operating costs (fuel, ice, gear, etc.). If not for CCF reducing capital costs, the vessel may have gone out of business, thereby causing a reduction in the number of active vessels in the fishery.

Second, a vessel owner can avoid paying the deferred taxes by continuously reinvesting in a CCF. This may cause an incentive to keep reinvesting funds, thereby staying in business, to avoid paying taxes (Jantscher, 1975). The stiff penalty for nonqualified withdrawal and the incentive to reinvest in the CCF to avoid paying taxes may be causing many fishermen to stay in the New England fishing industry, when they would prefer to retire. Fishermen may not be able to afford to pay the high taxes on their Schedule B vessels incurred by low depreciation values resulting from use of
the CCF. Nor might a nonqualified withdrawal be an affordable alternative. Many may not be able to afford the capital gains tax on the sale of their vessel (Zamperini, 1990). Consequently, they would continue to reinvest in their CCF to avoid paying taxes, thus remaining in the industry and contributing to overcapitalization and overfishing.

Schedule B vessels

Schedule B vessels could potentially contribute to overcapitalization in three ways: 1) by increasing the total number of vessels in a fishery; 2) by increasing the total vessel tonnage in a fishery; or 3) by increasing the efficiency of the fleet. First, every Schedule B vessel is constructed with proceeds from a Schedule A vessel. The Schedule A vessels used to build Schedule B vessels may not have exceeded their useful life and may have been sold back into the fishery or kept in the fishery by the original owner. In other words, the CCF may cause the construction of replacement vessels faster than they would normally occur, thus the Schedule A vessel could remain in the fishery for several more years causing an additional vessel to be in the fishery.

Second, the Schedule B vessel may be larger than the Schedule A vessel, creating more overall vessel tonnage in the fishery even if the Schedule A vessel is removed.
Third, the Schedule B vessel may also contain more sophisticated equipment and/or be better designed, creating a more efficient fishing vessel.

Advocacy of the Capital Construction Fund

While the CCF may provide an inducement to invest in a fishing vessel, it may not be the main motivation to participate. Studies have shown that attachment to fishing as an activity is not only attributed to economics, but also to strong ethnic and family traditions, as well as a penchant for a style of work not provided by most onshore jobs (Peterson and Pollnac, 1986). Thus, vessels in the industry that use the CCF may still have been built without the CCF Program. Furthermore, proponents of the CCF Program argue that the CCF does not increase fishing effort by increasing vessel construction beyond what would otherwise occur; CCF vessels are less likely to violate environmental regulations since they are more soundly financed; and CCF vessels target underutilized species more than conventional species (Austin, 1989). Some even assert that new vessels must be built to develop underutilized species since they require new technologies which are impractical to install on smaller vessels and too expensive to warrant installation on older trawlers (McCauley, no date).

Supporters also contend that other factors have contributed to overcapitalization more than the CCF. These are the Production Credit Associations of the Farm Credit...
Administration; the major industrial finance companies; large money-center banks; and general, liberal tax laws of the U.S. such as accelerated depreciation and investment tax credit (U.S. Department of Commerce, NOAA, NMFS, 1985). Many aver that investment tax credits for fishing vessels caused increased investments from outside interests (Zamperini, 1990). While the number of these non-owner-operators declined after this program of direct tax reductions for investment in capital equipment was repealed (Zamperini, 1990), many of these vessels remained in the industry under other ownership.

NMFS argues that the government is involved in a wide variety of other programs that provide tax incentives and shelters to other businesses and further maintains that the monies used in the CCF could not be reprogrammed for other fishery uses (Austin, 1989). NMFS also asserts that the CCF Program has been a minor factor in capitalization of the Nation's fishing industry (U.S. Department of Commerce, NOAA, NMFS, 1985). Furthermore, out of the vessels that used the CCF only a small portion were newbuildings that resulted in additional vessels in the industry. CCF Program activity that resulted from vessel conversion; occurred after vessel construction or acquisition began; or involved the reconstruction or acquisition of used vessels cannot have contributed to overcapitalization because use of the Program did not cause additional vessels to enter the industry (U.S. Department of Commerce, NOAA, NMFS, 1985).
The agency also states that the conditional fisheries concept restricts the level of use of the CCF (U.S. Department of Commerce, NOAA, NMFS, 1985). NMFS finally argues that there is nothing which lists and quantifies fisheries that are overcapitalized versus fisheries where there is merely continuing capitalization (U.S. Department of Commerce, NOAA, NMFS, 1985).

Some CCF defenders contend that tax deferrals are only used by successful operators as opposed to a loan or other type of subsidy which could be granted to an unsuccessful operator (U.S. Congress, Senate, 1975 and U.S. Congress, House, 1981, Hearing 97-7). This is because individuals using the CCF must be successful enough to make money to deposit into the Program.

Advocates of federal vessel financing programs further state that banks are becoming more unwilling to finance fishing vessels and foreclosures are becoming more common. In 1989, Rhode Island had a record number of foreclosures with at least eight vessels seized (Fitzpatrick, 1990). An unwillingness to finance new vessels is resulting in an aging Rhode Island fleet causing further concerns about safety (Fitzpatrick, 1990).

Recent Reactions to the Capital Construction Fund

Recent reactions to the CCF by fisheries managers and policy makers have been as disparate as the various pro and con arguments. On August 1, 1989 Congressman Gerry Studds,

Congressman Studds made an amendment to the reauthorization of the MFCMA (HR 2061) which included provisions to eliminate the use of the CCF in the fishing industry, but these provisions were marked out in committee (U.S. Congress, House, 1989, Report 101-393). Concomitantly, another amendment was added to expand the use of the CCF to allow vessel owners to use the Program to purchase equipment or modify qualified vessels to comply with requirements of the Commercial Fishing Industry Vessel Safety Act of 1988; federal environmental protection laws; and laws and regulations which include those relating to fishing vessel safety and seafood quality (U.S. Congress, House, 1989, Report 101-393). The bill passed the House in February 1990 and awaits action in the Senate.
Hypotheses

Nationally, commercial fishing has been in decline since 1980, when the catch reached a record high of 3.65 billion pounds (McLaughlin, 1987). Despite this, modern fishing technology has led to more efficient and faster means of catching fish. The federal government offers fishermen a tax deferral program known as the Capital Construction Fund.

Unsubstantiated arguments of the impacts of this program have divided the fishing community. One group believes the Program is damaging to the industry and should be abolished. The other claims the Program is beneficial or, at the very least, benign, and should be maintained. Neither group has developed an extensive study or analysis to confirm their position.

Arguments to abolish the Program include the following:

1. Most fisheries are fully developed, and in some cases overcapitalized.
2. The financial climate of the industry has significantly changed since the origin of the Program, resulting in availability of private funding and reducing the need for federal assistance.
3. The CCF could contribute to overcapitalization by significantly reducing capital costs resulting in vessels remaining in the industry when they would normally exit because of unfavorable economic conditions; forcing vessel owners to remain in the industry when they may prefer to exit; causing increases in the total number of vessels in a fishery; generating increases in the total vessel tonnage in a fishery; and causing increases in efficiency of the fleet.
4. The CCF is an incentive to invest in the industry beyond that which would normally occur.
5. Vessels using the CCF target fully utilized species.
6. Vessels using the CCF are just as likely to violate conservation regulations as non-CCF vessels.
7. Studies have shown that contractionary tax policy is an effective tool in limiting entry into fisheries, thereby controlling the problem of overcapitalization. Conversely, expansionary tax policy, such as the CCF, must contribute to overcapitalization.
8. The government should not be in the tax shelter business and those funds could be used more effectively in supporting the industry elsewhere, such as in enforcement.
9. Tax deferrals are a poor method of subsidization, which should be accomplished through direct appropriations to control the amount of money being used.

Arguments to maintain the Program include the following:

1. Vessels in the industry that use the CCF may still have been built without the Program.
2. The CCF does not increase fishing effort beyond what would otherwise occur.
3. Vessels using the CCF are less likely to violate environmental regulations since they are more soundly financed.
4. Vessels using the CCF target underutilized species more than conventional stocks.
5. New vessels must be built to develop underutilized species since they require new technologies which are impractical to install on smaller vessels and too expensive to warrant installation on older trawlers.
6. Production Credit Associations of the Farm Credit Administration; major industrial finance companies; large money-center banks; and general, liberal tax laws such as accelerated depreciation and investment tax credit have contributed to overcapitalization more than the CCF.
7. The government is involved in a variety of other programs that provide tax incentives and shelters to other businesses and funds used in the CCF could not be reprogrammed for other fishery uses.
8. The CCF Program has been a minor factor in capitalization of the Nation's fishing industry.
9. Only a small portion of the CCFs resulted in the construction of new vessels.

10. The Conditional Fisheries concept restricts the level of use of the CCF.

11. There is nothing which lists and quantifies fisheries that are overcapitalized versus fisheries where there is merely continuing capitalization.

12. Tax deferrals are only used by successful operators as opposed to a loan or other type of subsidy which could be granted to an unsuccessful operator.

13. Banks are becoming more unwilling to finance fishing vessels.

While each side calls on numerous points to illustrate its position, none are substantiated with a scientific study. A few position papers and memoranda have been written, but they do not gather primary information, rely on incomplete data, are generally descriptive in nature, and do not try to solve the differences of opinion so much as merely present the opposing arguments. Since the major thrust of the argument over the CCF centers around its influence on overcapitalization, incentive to invest in the industry, and the species that CCF vessels target, it is hypothesized that:

1. The CCF has been used extensively enough to cause overcapitalization.
2. The CCF is an incentive to purchase a new vessel.
3. CCF vessels are targeting underutilized species.
Methodology

Data to test the hypotheses were obtained through interviews with fishing vessel owners who home-ported their vessels in the State of Rhode Island (Appendix A). The interviews focused on gathering information on indicators of capitalization. Indicators of capitalization are those factors which reflect the way an individual vessel owner invests in the industry. They include number and size of vessels invested in; length of time vessels were owned; origin and fates of vessels; types of investments (partner, individual, etc.); and the vessel owner's position in the industry. These indicators can be used to compare the extent to which individual or groups of vessel owners capitalize the industry. Information from the interviews were split into two groups, those that have used the Program and those who have not. A frequency analysis was utilized to determine if there were differences in the indicators of capitalization of those who have used the Program and those who have not.

During the interviews, vessel owners were informed that their responses were to be used in an analysis of trends in vessel ownership and the use of the Capital Construction Fund in Rhode Island. Those interviewed were informed that their responses would be kept confidential, their responses would be compiled in a manner that would prohibit discernment of individuals, and that they did not have to answer any questions they were uncomfortable answering. It
is assumed that vessel owners told the truth, were really familiar with the CCF when they indicated they were, and did not answer questions in a strategic manner.

Before carrying out the analysis on the CCF, an overview of the Rhode Island fishing industry is given in Chapter II. This provides background on the use of fishery resources in the State, extent of capitalization, and a comparison of fish landings and CCF use to the rest of the nation. Chapter III documents the history of the CCF with an emphasis on its application to fisheries. The main purpose of reviewing the history of the CCF is to determine how the Program evolved and what its purposes and goals are from inception through subsequent changes. This information is later used to determine if the CCF is accomplishing the goals for which it was developed. Chapter IV presents the structure of the CCF as it applies to fisheries today. Chapter V covers the analysis and results of the project, which is followed by conclusions and recommendations in Chapter VI.
CHAPTER II

THE RHODE ISLAND COMMERCIAL FISHING INDUSTRY

This chapter explores the history of commercial fishing in Rhode Island; the contemporary condition of fishing ports in the State; the most commonly landed species of fish; the vessels and gear used by Rhode Island fishermen; and the shoreside marketing and processing industries. Agencies and organizations involved in fisheries management and policy are also described.

History of Commercial Fishing

At first fishing in Rhode Island was primarily a subsistence activity. Before European settlers arrived in the area, Indians collected fish to provide an important part of their food supply (Poggie and Gersuny, 1974). Early settlers along Rhode Island's south shore were predominantly farmers, but they fished for subsistence purposes during slack agricultural periods. Concomitantly, fishing is assumed to have been an important part of the local economy in Newport (Bort, 1981).
Throughout the 1700s and 1800s, the role of fishing in these two communities seemed to reverse. The importance of fishing in Newport began to decline in the 1700s with the development of overseas commerce and the emergence of Newport as a slave trading and shipping center (Bort, 1981). A whaling industry did develop during the 1730s, peaked in the mid-1800s, and then rapidly declined (Bort, 1981).

Meanwhile, a shore based seine fishery developed along the southern shores of Rhode Island in the mid-1800s (Poggie and Gersuny, 1974). One method was to run the net out into the water, leave it for about one hour, then pull it up on the beach. Another method was to use a whaling boat with four men rowing and two men throwing the net over the stern. Once the net was in the water sixteen men would haul it ashore (Poggie and Gersuny, 1974). Eventually fishermen using this method organized into gangs. Each gang had two boats and a seine. They slept in fish houses along the beach until it was time to fish (Poggie and Gersuny, 1974).

During this time, trap fishing also developed along the south shore of the state as well as in Narragansett Bay. These more modern fishing techniques began to displace the older, less productive hook and line method of fishing (Poggie and Gersuny, 1974). Seine and trap fishermen predominantly landed menhaden which was reduced to oil, livestock feed, and fertilizer. Scup, alewives, and bass were also important species.
Steam powered vessels were introduced into Rhode Island fisheries in the late 1800s (Poggie and Gersuny, 1974). This increased the efficiency of the Rhode Island fishing industry even further. These steamships berthed in the protected harbors of New Shoreham, on Block Island, and various towns in Narragansett Bay.

At the turn of the century, Newport was still the primary fishing port in the state, mainly due to its naturally protected harbor and an overnight steamship service to the New York fish markets. Much of the fish landed along the south shore of the state was even transported to Newport for shipment out of state.

Between 1880 and 1930, many important fisheries declined due to overfishing, pollution, and coastal construction (Olsen and Stevenson, 1975). Impacted species included menhaden, smelt, alewives, and oysters (Olsen and Stevenson, 1975).

Because Point Judith, a peninsula in southern Narragansett, posed serious hazards to shipping, the Army Corps of Engineers constructed a series of breakwaters there to serve as a harbor of refuge during storms. Construction of the first breakwater was completed in 1906. In 1909, an eastern shore breakwater was completed and a western shore breakwater was finished in 1915. Between 1902 and 1910 the town of South Kingstown, with funding from the state and the federal government to supplement their own money, dredged a channel from the head of Point Judith Pond to the harbor of
refuge created by the breakwaters. During the mid-1930s two state piers and a 35 acre anchorage were built just inside the pond's entrance (Pogge and Gersuny, 1974).

In the 1930s, the introduction of diesel engines and otter trawls allowed the exploitation of large offshore stocks of industrial fish such as whiting and hake. Given these new technologies and the harbor improvements made to the Point Judith area, Newport began to decline as the major fishing port while Point Judith continued to develop.

Newport's importance as a fishing port began to rise again in the 1960s as vessels from other ports such as New Bedford began to unload there on a regular basis. In 1971, 57 percent of the food fish landed in Rhode Island was landed in Newport, although Point Judith was the primary port for industrial fish (Olsen and Stevenson, 1975). By 1973, however, Newport had declined in importance once more.

**Fish Ports**

The two major fish ports in Rhode Island today are still Point Judith and Newport (Figure 1). Fish are also landed at Davisville, Sakonnet, Tiverton, Bristol, Warren, Block Island, and in minor amounts elsewhere in Narragansett Bay.
FIGURE 1
RHODE ISLAND FISHING HARBORS

SCALE: 1 INCH = 8 MILES
Point Judith Harbor

Point Judith Harbor is located in the lower portion of Point Judith Salt Pond. Vessels access the ocean through a breachway which leads through the Harbor of Refuge to Block Island Sound. The harbor is bounded by Narragansett on the east and extreme southwest and by South Kingstown on the west. The harbor is well protected, relatively ice free, and has a draft ranging from eight to twelve feet. The port has about eight landing facilities of various sizes. The Point Judith Fishermen's Cooperative and the Town Dock are the largest finfish landing facilities, while Point Judith Lobster is the largest lobster landing facility. Ice is available from about three facilities. Fuel is also available to vessels from about four companies, some of which operate from trucks. There is one major engine repair facility, a few facilities offering dry dock for hull repair and maintenance, and about ten gear supply stores in the area.

Vessels in Point Judith berth along the docks of the various landing and support facilities as well as the state piers. Approximately 210 commercial fishing vessels dock along state piers in the harbor (Beattie, 1990). They share the port with pleasure boats, recreational fishing vessels, ferries to Block Island, and tour boats. While vessels from other ports do land in Point Judith, the number of vessels there does not fluctuate greatly.

**Newport Harbor**

Newport is located on the southwest side of Aquidneck Island near the mouth of Narragansett Bay. The harbor is well protected, relatively ice free in the winter, and has a draft ranging from about twelve to twenty feet (Bort, 1981). The harbor has three primary landing facilities, one of which supplies fuel. The port has one ice company that sells to fishermen. There are currently no vessel repair facilities in Newport (Lathan, 1990) and only a few gear supply stores.

Vessels in Newport berth along the wharves of the landing facilities and the state pier. Approximately 45 vessels berth along the state pier (Beattie, 1990). The industry competes for this space with tourism and recreational boating. Vessels landing and berthing in
Newport vary with the season since transients from as far south as New Jersey and north as Massachusetts regularly utilize the port (Lathan, 1990).

In 1987, Newport ranked fiftieth in value of fish landed nationally (O'Bannon, 1988). The port did not rank in the top sixty for volume in 1987 or volume and value in 1988. The most commonly landed species are yellowtail flounder, lobster, and cod (Lathan, 1990).

Other Ports

Vessels also land fish and berth in several other places within Rhode Island. A facility at Davisville (Seafreeze) serves as a landing spot and berthing area for about five freezer vessels. A few gill net vessels berth in Sakonnet and land their catch at a facility there. Some vessels also berth and land their catches in Tiverton, Bristol, and Warren (Lathan, 1990). Block Island is home port to a few fishing vessels and fish is also landed there in small amounts. Certain vessels also dock at Wickford and Jamestown. Quahuags are landed in several areas in Rhode Island, however, these are landed by fishermen operating from skiffs of less than two net tons. Since the CCF can only be used by vessels greater than two net tons, the sizes of these vessels are too small to be included in this study. Several lobstermen also use skiffs to tend their pots.
Predominant Species Landed

In 1988, the leading species landed in Rhode Island by weight were *Loligo* squid, whiting, and scup (Table 1). The leading species by value were lobster, bay quahogs, and *Loligo* squid. By 1989, *Loligo* squid and whiting maintained their landing ranks by weight, mackerel, however, replaced scup as number three (Table 2). Lobster, bay quahogs, and *Loligo* squid retained 1988 ranks by value.

Nationally, in 1987 Rhode Island ranked fourteenth by volume and eleventh by value for fish landed by state (O'Bannon, 1988). In 1988, the State ranked thirteenth by volume and value (O'Bannon, 1989). Total national landings in 1988 were 7,192,553,000 pounds for a value of 3,520,259,000. Thus, in 1988, Rhode Island accounted for 1.48 percent of the volume and 1.97 percent of the value of fish landed nationally in 1988 (Table 3). Massachusetts accounted for 3.98 percent of the weight and 7.78 percent of the value of fish landed in the nation, while Maine accounted for 2.19 percent of the weight and 3.52 percent of the value of the fish landed in 1988. The major species landed in Rhode Island are subsequently described in detail, much of the information is abstracted from Bigelow and Schroeder, 1953 and Faria, 1984.
## TABLE 1
RHODE ISLAND LANDINGS 1986-1988

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Loligo squid</td>
<td>19,330</td>
<td>7,613</td>
<td>9,724</td>
<td>3,930</td>
<td>13,957</td>
<td>4,611</td>
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<td>Whiting</td>
<td>13,570</td>
<td>2,744</td>
<td>13,327</td>
<td>4,112</td>
<td>12,517</td>
<td>2,486</td>
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<td>Scup</td>
<td>6,244</td>
<td>4,017</td>
<td>4,767</td>
<td>2,865</td>
<td>6,586</td>
<td>3,615</td>
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<td>Lobster</td>
<td>4,859</td>
<td>15,569</td>
<td>5,317</td>
<td>17,828</td>
<td>5,513</td>
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<td>Fluke</td>
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<td>7,006</td>
<td>4,774</td>
<td>7,763</td>
<td>7,044</td>
<td>9,085</td>
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<td>Butterfish</td>
<td>2,944</td>
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<td>7,809</td>
<td>5,282</td>
<td>6,712</td>
<td>4,690</td>
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<td>1,577</td>
<td>2,011</td>
<td>1,350</td>
<td>2,284</td>
<td>1,216</td>
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<tr>
<td>Bay quahogs (mts)</td>
<td>2,838</td>
<td>14,464</td>
<td>3,349</td>
<td>15,628</td>
<td>3,603</td>
<td>15,705</td>
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<tr>
<td>Blackback flounder</td>
<td>2,623</td>
<td>2,307</td>
<td>3,829</td>
<td>3,502</td>
<td>4,191</td>
<td>3,068</td>
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<tr>
<td>Mackerel</td>
<td>2,542</td>
<td>409</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Yellowtail flounder</td>
<td>1,132</td>
<td>1,223</td>
<td>1,704</td>
<td>2,011</td>
<td>3,858</td>
<td>3,117</td>
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<tr>
<td>Other species</td>
<td>43,515</td>
<td>11,220</td>
<td>42,106</td>
<td>13,144</td>
<td>35,277</td>
<td>11,279</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>107,248</td>
<td>70,346</td>
<td>98,717</td>
<td>77,417</td>
<td>101,542</td>
<td>75,089</td>
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</table>

All weights are in thousands of pounds
All values are in thousands of dollars

* Indicates species was not one of the top ten landed that year

All figures are preliminary

Source: Susan Murphy, National Marine Fisheries Service, Statistics Division, Narragansett, Rhode Island
<table>
<thead>
<tr>
<th>Species</th>
<th>lbs</th>
<th>$</th>
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<tr>
<td>Loligo squid</td>
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<tr>
<td>Whiting</td>
<td>14,696</td>
<td>2,319</td>
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<td>Mackerel</td>
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<td>1,552</td>
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<td>Lobster</td>
<td>5,727</td>
<td>17,530</td>
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<td>Butterfish</td>
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<td>Cod</td>
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<tr>
<td>Fluke</td>
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<td>Scup</td>
<td>3,043</td>
<td>2,488</td>
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<td>Bay quahogs (meats)</td>
<td>2,538</td>
<td>13,799</td>
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<tr>
<td>Blackback flounder</td>
<td>1,800</td>
<td>1,510</td>
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<tr>
<td>Yellowtail flounder</td>
<td>1,556</td>
<td>1,507</td>
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<tr>
<td>Other species</td>
<td>55,281</td>
<td>14,970</td>
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<td><strong>TOTAL</strong></td>
<td><strong>125,041</strong></td>
<td><strong>75,004</strong></td>
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All weights are in thousands of pounds
All values are in thousands of dollars

* Indicates species was not one of the top ten landed that year

All figures are preliminary

Source: Susan Murphy, National Marine Fisheries Service, Statistics Division, Narragansett, Rhode Island
<table>
<thead>
<tr>
<th>State</th>
<th>Pounds Landed</th>
<th>Value Landed ($)</th>
<th>% National Pounds Landed</th>
<th>% National Value Landed ($)</th>
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<td>RI</td>
<td>106,208,000</td>
<td>69,422,000</td>
<td>1.48</td>
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<td>MA</td>
<td>286,476,000</td>
<td>274,030,000</td>
<td>3.98</td>
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<tr>
<td>ME</td>
<td>157,281,000</td>
<td>123,933,000</td>
<td>2.19</td>
<td>3.82</td>
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<td>CT</td>
<td>9,133,000</td>
<td>17,444,000</td>
<td>0.13</td>
<td>0.50</td>
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<tr>
<td>NH</td>
<td>10,808,000</td>
<td>8,818,000</td>
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</tr>
<tr>
<td>Nation</td>
<td>7,192,553,000</td>
<td>3,520,259,000</td>
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</tr>
</tbody>
</table>

Source: O'Bannon, 1989
**Loligo Squid**

*Loligo* squid (*Loligo pealei*) is characterized by its long tube-like body ending in a set of fins at one end and opening to a head at the other. At the base of the head are ten appendages arranged in pairs of five. Squid ranges from Nova Scotia to Venezuela and occurs commonly from Massachusetts to North Carolina. The species feeds on small crustaceans and fish. Rhode Island vessels catch squid inshore from spring through fall and offshore in the winter. It is typically creamy colored with reddish brown spots and has mantle lengths of four to twelve inches. Squid meat is white, very firm in texture, contains very little fat, and has a very mild flavor. It is sold fresh and frozen whole, cleaned, and ringed. *Loligo* squid is insignificant as a recreational fishery, has been under a federal management plan since 1979, and is considered to be moderately exploited (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988).

**Whiting**

*Whiting* (*Merluccius bilinearis*) is a slender, streamlined fish with soft-rayed fins, the upper of which are transparent. It is gray above, mottled with brown, silvery iridescent on its lower sides and belly. Whiting averages about eleven inches in length with a weight of about one pound, but are landed as long as fourteen inches and two pounds. It ranges from Newfoundland to South
Carolina and is produced in Rhode Island year round. Whiting feeds on small schooling fish, squid, and crustaceans. Its meat is white, soft textured, and mild flavored. It is sold fresh and frozen in whole, drawn, dressed, and occasionally filleted forms. Whiting is of minor importance as a recreational fishery and has been under a federal preliminary management plan since 1977. It is considered to be underexploited (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988).

Mackerel

Mackerel (Scomber scombrus) is fusiform in outline, tapering rearward to a very slim caudal peduncle and forward to a pointed nose. It has a long head with a large mouth gaping back to the middle of the eye and a deeply forked tail. The upper half of their body is iridescent blue-green with vertical black wavy bands, and the lower half and belly are silvery white. Adults average fourteen to eighteen inches in length and weigh one to two and a half pounds. It is found on both sides of the North Atlantic, from Norway to Spain in Europe and from the Gulf of St. Lawrence to North Carolina off the American coast. Mackerel is predominantly landed in Rhode Island in the spring. The species feeds on any floating animals such as pelagic amphipods, copepods, squid, launce, shrimp, annelid worms, and molluscan larvae, as well as, fish eggs and fry. The meat is dark colored,
rich in oil, soft textured, and full flavored. Mackerel is sold whole (fresh and frozen), drawn, dressed, filleted, and smoked. The species has been under a federal management plan since 1979.

American Lobster

American Lobster (Homarus americanus) is characterized by two large claws; four pairs of legs used for walking on the bottom; and a large, powerful tail with five pairs of swimmerets underneath, ending in a tail fan for short, powerful bursts of swimming. Lobster is generally dark greenish black, greenish blue, or reddish brown in color. The species ranges from Labrador to North Carolina and is most abundant off Maine. Biologists believe that both an inshore and offshore population exists. Lobster inhabit all bottom areas from the low tide to the edge of the continental slope. It is landed year round with predominant landings in the summer. The species is normally landed between one and three pounds. The meat is white, firm, and sweet tasting. It is sold live, cooked picked, cooked whole, frozen tails, and frozen whole in brine. Lobster is of minor importance as a recreational fishery, has been under a federal management plan since 1985, and is considered fully exploited offshore and over exploited inshore (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988).
Scup

Scup (Stenotomus chrysops) is dull silvery and iridescent with a white belly. Its sides and back are flecked with light blue and marked with twelve to fifteen indistinct longitudinal stripes. It has a deep body which is flattened sidewise. Scup is a warm water species which migrates to coastal waters during the spring and out to deeper water in the fall. The species feeds on the bottom, its diet consisting of small invertebrates, squid, and fish fry. It is landed year round at weights between half a pound and five pounds. Scup meat is light in color and has a mild but distinct flavor. It is usually sold whole, drawn, dressed, or occasionally filleted. Scup is of major importance as a recreational fishery, has no federal management, and is considered fully exploited (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988).

Yellowtail Flounder

Yellowtail flounder (Limanda ferruginea) is a right-handed, small mouthed flatfish with a pointed snout. It is characterized by the yellowish hue of its tail and fins. Its top side is brownish and spotted with irregular rusty red spots. The eye-less side is whitish with a yellow outline. The species ranges from Labrador to Virginia, inhabits sand and mud bottoms, and eats crustaceans, shellfish and worms. Yellowtail flounder is landed in Rhode
Island on a year round basis. It normally averages three quarters to one and a half pounds. The meat of flounder is white, lean, mild flavored, and delicately textured. It is usually sold whole or filleted, but is also marketed drawn or dressed. Yellowtail flounder is of insignificant importance as a recreational fishery, has been under a federal management plan since 1986, and is considered over exploited (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988).

Cod

Cod (Gadus morhua) is a heavy-bodied fish, slightly flattened sidewise, has three dorsal fins and two anal fins, and a nearly square tail. Cod ranges in color from a golden brown to a red brow with brownish, yellowish, or reddish small round spots. Its belly is white and tinged with the upper body color. Generally, harvested cod ranges in size from three to twenty-five pounds. Cod is a groundfish that ranges from Greenland to North Carolina being most abundant from Nova Scotia to Cape Cod. This species feeds on mollusks, squid, and small fish and migrates due to temperature, food, and spawning. Cod is found inshore from mid autumn to the end of spring and offshore year round. The meat is white, mild flavored, and medium textured. It is marketed in drawn, dressed, filleted, steaked, smoked, salted, dried, roe, tongue, and cheek forms. Cod is of
major importance as a recreational fishery, has been under a federal management plan since 1986, and is considered over exploited (U.S. Department of Commerce, NOAA, NMFS, Conservation and Utilization Division, 1988).

Other Species

Several other species of fish are also landed in Rhode Island. These include herring, blackback flounder, fluke, brill, blackfish, bluefish, tuna, swordfish, ocean pout, angler, sea bass, dogfish, sea robin, hake, and weakfish. Rhode Island fishermen predominantly fish in waters between Cape Cod and Long Island, but may travel as far south as New Jersey or as far north as Maine. Consequentially, they fish the same grounds as vessels from other states. Several methods, gear, and vessels are used to catch fish in Rhode Island.

Fishing Vessels and Gear

Vessels are normally categorized by trip duration and gear type. Vessels that fish near the shore are called day boats or inshore vessels (Poggie and Gersuny, 1974). Usually day boat refers to vessels using mobile gear and inshore vessel refers to vessels using fixed gear such as lobster pots. These vessels normally fish near the coast and stay out for twelve to fifteen hours, but sometimes as long as a couple days. Vessels that fish offshore are termed trip boats or offshore vessels (Poggie and Gersuny,
1974). Similarly, trip boats usually refer to vessels using mobile gear and offshore vessels to those using fixed gear. These vessels fish offshore for average durations of three to fourteen days, depending on the market and fishing conditions. Freezer vessels ordinarily stay out ten to twenty-five days, as their market is relatively stable and their product is not in danger of losing quality.

Gear types are usually classified as mobile or fixed. Mobile gear commonly used by Rhode Island vessels include the bottom trawl, midwater trawl, dredge, and harpoon. Fixed gear commonly used by Rhode Island vessels include the gill net, trap, longline, and pot.

Mobile Gear

The bottom trawl is a large bag shaped net that is towed along the ocean bottom (Sainsbury, 1986) (Figure 2). The mouth of the net is kept open by a door on each side of the opening. These doors are angled to provide a force spreading the mouth of the net. The bottom of the mouth (footrope) is weighted to keep the net open vertically and on the bottom. The top of the mouth (headline) has buoyant floats to keep the net open vertically. The top of the net usually overhangs the bottom. In this manner, fish are prevented from swimming up to escape. All the fish are eventually caught in the end of the net, which is known as the codend.
doors are set at angle to provide force spreading mouth of net

Source: Sainsbury, 1986
Bottom trawls can be used in side trawling or stern trawling. Side trawling is done from vessels equipped to set and haul the net over the side. These vessels are older, normally wooden, characterized by a wheelhouse located on the stern. While there are still many side trawlers in operation, they have given way to more efficient and easier to handle stern trawlers.

Stern trawling is done on vessels equipped to set and haul the net over the stern. There are basically three variations on stern trawlers: those that use quarter ropes, net drums, or stern ramps. Stern trawlers that use quarter ropes essentially operate the same way side trawlers do except the former sets and retrieves the net over the stern. Some stern trawlers make use of drums mounted in the stern to wind up the net. Vessels may have anywhere from one to three drums. Some vessels also use ramps which lead from the water level up to the deck. The advantage of a ramp is that the codend does not have to be lifted over the stern or side, but only needs to be elevated for emptying (Sainsbury, 1986). Usually these methods are used in combination with one another. Stern trawlers are usually characterized by the aforementioned traits, a wheelhouse midship or toward the bow, as well as most of the newer vessels being constructed of metal.

Side and stern trawlers can operate singly or in tandem, which is known as pair trawling. Bottom trawls may be towed for several hours at a time and are used to capture
demersal species such as flounder, cod, haddock, and pollock. Bottom trawls can also be used to target semi-pelagic and pelagic species such as mackerel, squid, and whiting, making it the most widely used type of net in Rhode Island. The price of bottom trawls depend on the horsepower of the vessel towing it. The typical Rhode Island price for a bottom trawl for a 40 foot vessel with a 250 horsepower engine is about $3,000 dollars. The price of a bottom trawl for an 80 foot vessel of about 1,000 horsepower is approximately $6,500 dollars.

The midwater trawl is more cone shaped than the bottom trawl. As the name implies, it is towed through the water column instead of the bottom. Doors are used to keep the net open horizontally, while floats on the headline and chains on the footrope keep it open vertically. These nets have the same shape above and below, ending in small wings at either side, and they are essentially constructed from four panels of netting joined to form a box shape with small extension gussets or wings at each corner (Figure 3) (Sainsbury, 1986). The headline is equipped with a transducer to monitor the depth of the net. The net is also rigged with a choke strap just before the codend to prevent fish from escaping while the net is being brought on board (Sainsbury, 1986).

Like the bottom trawl, the midwater trawl may be used when side trawling or stern trawling, by single vessels or by pair trawling. Midwater trawls are used to catch pelagic
FIGURE 3
MIDWATER TRAWL

Source: Sainsbury, 1986
species such as herring, menhaden, mackerel, and squid. Vessels targeting these species spend most of their time searching with sonar. The net is set when the vessel's sonar locates a sizable school and is usually retrieved after ten to twenty minutes when the vessel has towed through the shoal of fish (Sainsbury, 1986). The tow, however, can be as long as four hours, depending on the size and concentration of the school. Midwater trawls are used by vessels of at least 90 feet and 1,000 horsepower. Prices usually start at 7,000 dollars and up.

Dredging is used to target bottom dwelling shellfish such as scallops, clams, and quahogs. Dredges are dragged along the bottom to scoop up shellfish which end up in a bag attached to the end (Figure 4). Sometimes high pressure water jets are used to help loosen the seafloor. Dredges can be set and retrieved from the stern or the side. Smaller vessels usually tow only one dredge while larger offshore vessels tow up to three at a time. Scallops are shucked onboard. Some of the larger ocean quahog and clam vessels may also shuck and process the meat on board.

Harpooning is used to target large, high value species such as tuna and swordfish. The harpoon consists of a wooden pole fitted into the socket of a steel dart with double barb at its forward end (Figure 5) (Sainsbury, 1986). A hunting line about 40 to 150 fathoms in length with a float at the end is attached to the barb end of the pole while a retrieving line runs from the pole of the harpoon to the operating vessel (Sainsbury, 1986).
FIGURE 4

SCALLOP DREDGE

Source: Faria, 1984
FIGURE 5
HARPOONING OPERATION

Source: Sainsbury, 1986
Vessels used in harpooning are characterized by the stand (pulpit) which projects about twelve feet from the bow and a crow's nest on the mast for spotting. Vessels range from 25 to 70 feet in length, have a speed of at least ten knots, and are very maneuverable (Sainsbury, 1986).

Fixed Gear

Gill nets are large walls of netting set either just above the seabed when fishing for demersal species, or anywhere from midwater to the surface when targeting pelagic fish (Figure 6) (Sainsbury, 1986). Gill nets can be anchored, set to drift, or anchored at one end with the vessel remaining attached to the other (Sainsbury, 1986). The nets may be made of one sheet of twine that traps fish by their gills as they try to swim through, or several sheets of various mesh sizes in which they become entangled (Sainsbury, 1986).

Vessels of any size can gill net, but the common length is between 35 and 55 feet (Sainsbury, 1986). Nets are either set over the stern and hauled over the side or set and hauled over the stern (Sainsbury, 1986). Rhode Island vessels use gill nets to capture swordfish and to some extent groundfish.

Traps vary in size and design, but in general they are constructed of walls of netting which run from the surface to the ocean bottom (Figure 7). They are generally held in place by anchors on the bottom and floats on the top. Fish
FIGURE 6

METHODS OF SETTING GILL NETS

Source: Sainsbury, 1986
FIGURE 7
FISH TRAP

Source: Olsen and Stevenson, 1975
enter the trap and follow the walls to the pocket where they are trapped. The bottom of the pocket is netted and this net is pulled up by the boat to gather the fish trapped in the pocket. Any vessel can tend traps, but 30 to 35 foot open boats are commonly used (Olsen and Stevenson, 1975). Rhode Island trap fishermen land scup, squid, sea bass, and minor amounts of other fish, but do not account for a significant portion of statewide landings.

Longlines can be used to target pelagic and demersal fish (Figure 8). Sub-surface longlines are suspended 40 to 50 feet underwater by floats and high flyers, floats that have a long pole with a flag on the top for pelagic fish (Sainsbury, 1986). Hooks, which are suspended from ganglines (lines hanging from the main longline) are spaced 90 to 300 feet apart, baited with small fish, and soaked (left in the water) for a number of hours (Sainsbury, 1986). Sometimes the water is chummed and light sticks are placed near the hooks to attract the targeted species and/or bait fish.

Bottom longlines consist of a groundline submerged by anchors at each end, marked by floats on top, and consisting of baited hooks at the end of ganglines spaced five to ten feet apart (Sainsbury, 1986). Any size vessel is suited for longlining. Sub-surface and bottom longlines are usually set over the stern and retrieved over the side.
FIGURE 8

SUB-SURFACE AND BOTTOM LONGLINE

Source: Sainsbury, 1986
Pots are made of wood or plastic coated steel mesh and are rectangular in shape. Inshore pots are traditionally 30 to 36 inches long, 18 to 22 inches wide and 12 inches tall, while offshore pots are sometimes slightly larger (Olsen and Stevenson, 1975). Pots are divided into two chambers that are connected by a funnel of netting (Figure 9). Two other funnels lead from the outside into the front chamber which is baited with fish (Olsen and Stevenson, 1975). Pots are strung along a line known as a trawl. Pots are usually brought up via a hauler which is attached to the side. As each pot is hauled, it is rested on the rail of the vessel, trapped lobster are removed, the bait is replaced, and the pot is moved to the stern of the vessel where it remains until the whole trawl is lined up on the stern. When the trawl is ready to be put back in the water the first pot is pushed off, the boat moves forward, and each successive pot enters the water. Pots are used to fish lobster and crabs. In Rhode Island, lobster pots typically cost 40 to 45 dollars for wood and 30 to 35 dollars for wire.

Vessel Construction

Rhode Island vessels are usually built in yards on the east and Gulf coasts of the United States, predominantly Louisiana and Maine. Vessel prices vary somewhat. In general, a basic 80 foot steel stern trawler with ramp costs between 700,000 and 850,000 dollars new and around 500,000
Source: Olsen and Stevenson, 1975 and Sainsbury, 1986
dollars converted. A 40 foot stern trawler costs 300,000 to 350,000 dollars new. Prices of 70 foot lobster vessels vary from 450,000 to 650,000 dollars. The cost of a 30 foot lobster boat varies from 110,000 to 150,000 dollars. Scallop vessels in the 100 foot range in price from 980,000 to 1,500,000 dollars. A 150 foot stern trawler/processor is in the 5,500,000 dollar range.

Vessel Financing

Due to the high cost of modern fishing vessels, most entities interested in purchasing a new vessel will need to finance through a bank or some similar institution. Obtaining a loan for a vessel in Rhode Island is much more difficult today than it was in the early 1980s. Fishing vessel loan procedures in Rhode Island vary with the bank; cost and type of vessel desired; and background of those applying for the loan.

Down payments range from 20 to 40 percent of the cost of the vessel, with 40 percent being preferred. Interest rates are usually variable being 1.5 to 3 percent over prime. The length of loan varies from five to fifteen years. The vessel itself is the minimum required collateral. Real estate, and to a lesser extent, cash CDs, stocks, and bonds are also required. All banks require hull insurance, while most require breach of warranty and some
type of P&I liability insurance. Some even require pollution, war risk, and nationalization and confiscation insurance.

When considering a loan the background of the applicant is thoroughly examined. In general, applicants must show two to three years of financial information, prior fishing experience, ability to properly manage a business, and competence as a fishing captain. It also helps if the individual has owned a vessel before and has a strong capital base. Some banks even require landings and cash flow estimates for the new vessel. Personal interviews with loan officers revealed they were split as to whether the CCF and guaranteed loans made it easier to get a loan approved. Those who said the CCF made it easier to get a loan indicated it was due to the fact that the CCF Program made it easier to accumulate capital faster. Thus a person who used the fund would have more money in the bank and more capital for a down payment when the loan was being considered.

Few Rhode Island financial institutions are currently active in commercial fishing vessel loans. Loan applications are highly scrutinized these days and financing will most likely be difficult through the early 1990s (Zamperini, 1990). Those that get loans will more than likely be successful owner-operators with proven success in the industry.
Current Status of Fleet

The current Rhode Island fleet consists of approximately 217 U.S.-flag vessels over five net tons and has remained at that number since 1987 (Murphy, 1990). A total of about 252 vessels land fish in Rhode Island throughout the year, however, about 35 of them are home-ported in other states and are only in Rhode Island on a seasonal basis (Murphy, 1990). Thus, not all of the fish landed in Rhode Island is landed by Rhode Island ported vessels. Similarly, vessels from Rhode Island land fish in many other states including New York, Massachusetts, and Connecticut.

The Capital Construction Fund

Nationally, in 1988 there were 2,547 active agreements involving 3,847 active Schedule A vessels (Table 4). During the same year, there were 27 active CCF agreements in Rhode Island with 31 active Schedule A vessels (Table 5). Thus, Rhode Island vessels owners accounted for 1.06 percent of the active CCF agreements and 0.81 percent of the vessels using the CCF in the nation (Table 6). Massachusetts and Maine respectively account for 4.83 and 1.96 percent of the active agreements and 4.00 and 1.40 percent of the active vessels using the CCF in the nation. This indicates use of the CCF is more extensive in Massachusetts and Maine than in Rhode Island. On a national basis, in 1988 New England States accounted for a smaller share of CCF agreements and
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<th></th>
<th>Total # of Agreements*</th>
<th>Active # of Agreements*</th>
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**NMFS NORTHEAST REGION**

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*Numbers of Agreements are cumulative.

For further information call Dorothy J. Bostic, (301) 427-2393, Financial Services Division.
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(1) From 1970 thru 1988
(2) As of December 31, 1988

M = Million

Source: Dorothy J. Bostic, Financial Services Division, National Marine Fisheries Service, National Oceanic and Atmospheric Administration.
### TABLE 6

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<th>State</th>
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<th>Active % Nat Fleet</th>
<th>Active % Nat Deposits</th>
<th>Active % Nat W/ds</th>
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<th>Amt in CCFs</th>
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1 - Percent of active CCF agreements in the nation that active CCF agreements in each state account for = # active CCF agreements of given state in 1988/2547 (# active CCF agreements in the nation).

2 - Percent of active CCF vessels in the nation that active CCF vessels of each state account for = # active CCF vessels of given state/3847 (# active CCF vessels in the nation).

3 - Percent of cumulative deposits for the nation into CCFs that each state accounts for = amount of cumulative deposits by a given state/729.6M (cumulative deposits into CCFs for the nation).

4 - Percent of cumulative withdrawals for the nation from CCFs that each state accounts for = amount of cumulative withdrawals by a given state/592.9M (cumulative withdrawals from CCFs for the nation).

5 - Percent of the total current amount of money in CCFs in the nation that each state accounts for = total amount of money vessel owners currently have invested in CCFs in a given state/136.7M (the amount of money in all CCFs in 1988).

6 - Percent of deposits in CCFs that were not withdrawn by the end of 1988 = the total amount currently in CCFs in a given state/total cumulative deposits into CCFs for that state.

Nat = National
W/ds = Withdrawals
w/drawn = withdrawn
M = Million
vessels, than they did for value of fish landed (Rhode Island, Massachusetts, and Maine respectively accounted for 1.97, 7.78, and 3.52 percent of the value of fish landed in the United States in 1988, refer to Table 3, p. 31).

Between 1970 and 1988, fishermen deposited 729.6 million and withdrew 592.9 million dollars on a national basis (refer to Table 4, p. 56). On a national scale, this left 136.7 million dollars in CCFs in 1988. During the same period, Rhode Island fishermen deposited 7.7 million dollars into CCFs while they withdrew 7.2 million (Table 5, p. 57). This left a total of half a million dollars in the CCFs of Rhode Island vessel owners in 1988. Hence, Rhode Island fishermen accounted for 1.06 percent of the money deposited into and 1.21 percent of the money withdrawn from the Program during this period (Table 6, p. 58). During this time span, Massachusetts and Maine respectively accounted for 4.92 and 2.14 percent of the total deposits into CCFs and 4.98 and 2.23 percent of the total withdrawals from CCFs in the nation. Rhode Island CCF users accounted for 0.37 percent of the unused monies in CCFs in 1988, while Massachusetts and Maine accounted for 4.68 and 1.76 percent respectively (Table 6). On a national basis, in 1988 New England States, with the exception of Connecticut, accounted for a smaller share of CCF deposits, withdrawals, and unused Funds, than they did for value of fish landed. During that period, Connecticut accounted for 3.07 percent of the unused monies in CCFs and only half a percent of the value of fish
landed in the nation. Therefore, with the exception of Connecticut, relative to the value of fish landed in 1988, New England States used the Program in a manner less than proportional to the value of their landings.

In 1988, Rhode Island fishermen had 6.49 percent of the cumulative deposits since 1970 left in CCFs, while nationally 18.73 percent of the cumulative deposits since 1970 were left in CCFs (Table 6). Vessel owners in Massachusetts and Maine respectively had 17.83 and 15.39 percent of the deposits still in accounts during 1988. By 1988, Connecticut vessel owners had not withdrawn 67.74 percent of the deposits put into CCFs since 1970.

This indicates that Rhode Island CCF users have withdrawn most of the money that has been deposited into the Program and are not very active at the present time. It may also reflect that there was a relatively large use of the Program at one point in the past, a large number of nonqualified withdrawals, or both. Capital Construction Fund users in Massachusetts and Maine deposited and withdrew funds at a rate close to the national average, while vessel owners in Connecticut seemed to have deposited funds which they have not yet used. This may be indicative of use of the CCF as a tax shelter in this state.

Between 1970 and 1989, 8,455 proposed objectives were entered into across the nation (Cost to Taxpayers, no date). There were 3,087 proposed objectives for reconstruction, 1,860 for acquisition, and 3,508 for
Shoreside Marketing and Processing

There are approximately 105 fish wholesalers, retailers, and processors in Rhode Island (Boragine, 1990). It is difficult to categorize these businesses specifically because many of them fall into several of the categories. For example, all the landing facilities are wholesalers, but most also process fish in some manner and a few also have a retail division. These businesses employ an estimated 2,500 to 3,000 people (Boragine, 1990).

Fish are processed in several different ways. There are approximately three businesses that freeze fish; nineteen that steak, fillet, loin, or skin; two that clean squid; one that smokes; one that processes crab; eight that shuck, strip, mince, etc. shellfish; one that cooks lobster; one that dries and salts; one that makes surimi; and two that pickle/can (Murphy, 1990). There are also two
companies that produce seafood salads and/or chowders on a large scale (Boragine, 1990). Several retailers purchase fish on a small scale to fillet, clean, and make salads themselves to accommodate walk-in customers. There are no fish reduction plants in Rhode Island (Boragine, 1990).

Rhode Island fresh and processed products are sold in several national and international markets. Fresh whole fish is shipped to New York, Philadelphia, Baltimore, and Boston on consignment. Fresh whole fish is also air freighted to the west coast and overseas. Fresh processed products are predominantly shipped to buyers on the east coast, while frozen products are usually shipped overseas in containers. Most fresh and frozen products are also sold for consumption or processing locally.

Fisheries Management and Policy

Several agencies and organizations directly contribute to fisheries management and policy formulation in Rhode Island. These include the Rhode Island Department of Environmental Management (RIDEM), the Rhode Island Marine Fisheries Council (RIMFC), the National Marine Fisheries Service (NMFS), the New England Fisheries Management Council, the United States Coast Guard, the Rhode Island Coastal Resources Management Council, various environmental organizations, several fishermen's organizations and the University of Rhode Island.
The Rhode Island Department of Environmental Management, Division of Fish and Wildlife studies the biological aspects of fish stocks in state waters (all internal waters and the belt of ocean extending three miles from mean low tide seawards). The section of Licensing and Boating Registration is responsible for issuing all fishing licenses and permits as well as registering vessels. The RIDEM Division of Enforcement enforces the regulations for marine and freshwater fisheries as well as terrestrial game laws.

The Rhode Island Marine Fisheries Council has regulatory jurisdiction over all marine animal species in Rhode Island waters. This jurisdiction includes the manner of taking fish, legal size limits, seasons and hours in which fish may be caught and in one's possession, quotas, and areas which may be fished (R.I. General Laws 20-3-2).

The National Marine Fisheries Service is responsible for scientific studies, gathering statistics, and enforcement. The New England Fisheries Management Council manages the fisheries in federal waters (those between three and two hundred miles from mean low tide) in a way similar to that of the Rhode Island Marine Fisheries Council in state waters. The United States Coast Guard is responsible for inspection and documentation of all vessels and enforcement of fishing laws at sea.
The Rhode Island Coastal Resources Management Council is responsible for managing activities such as coastal development, ocean disposal, dredging, construction of underwater cables and pipelines, and marine mineral extraction (Olsen and Stevenson, 1975). Each of these activities potentially impact the fishing grounds, fish spawning areas, and/or shoreside fisheries support facilities.

Several environmental organizations such as Greenpeace and Save the Bay support measures to conserve fishery resources. They also chastise fishermen for some fishery techniques.

There are numerous fishermen's organizations that lobby in support of the industry and help conduct studies to solve industry problems. These organizations include the Point Judith Fishermen's Cooperative Association, Inc., the Rhode Island Lobstermen's Association, the Rhode Island Shellfishermen's Association (this group is composed of handrakers and mostly operate from boats smaller than two net tons), the Rhode Island Fishermen's Alliance, and the Atlantic Offshore Fishermen's Association.

The University of Rhode Island has several departments, schools, and affiliates that work with the local fishing industry in various capacities. These include the Coastal Resources Center; Rhode Island Sea Grant; Rhode Island Marine Advisory Service; the Graduate School of
Oceanography; and the departments of fisheries, aquaculture, and veterinary science, resource economics, food science and nutrition, sociology and anthropology, zoology, and marine affairs.

Summary
Early fishing in Rhode Island was mainly for subsistence purposes during slack agricultural periods. The modern fishing industry began when Point Judith was developed as a harbor. Today, the State has two major fishing ports, Point Judith and Newport. Point Judith is the larger of the two with most of the 210 fishing vessels that call on the harbor also being home-ported there. Many of Newport's 45 vessels are transients and only land there part of the year.

In 1989, Rhode Island's leading landings by volume were Loligo squid, whiting, and mackerel. Leading species by value were lobster, bay quahogs, and Loligo squid.

The Rhode Island commercial fishing industry is basically a multispecies fishery. That is, vessels may try to target one species, but different species are usually caught together at the same time and most vessels fish for the species that are biologically available and have a reasonable market price at a given time. Thus, the typical Rhode Island fishing vessel may bring in flounder one trip and whiting the next, or many different species in the same trip, depending upon the situation. Most of the vessels
from Rhode Island drag for multiple species or pot for lobster. Most of those that drag use bottom trawls and some switch gear types in the summer. They convert to longlining, handlining, gillnetting, or harpooning for large pelagics such as tuna and swordfish.

Rhode Island vessels are predominantly built in the Gulf of Mexico and the State of Maine. Basic 80 foot steel stern trawlers with ramps usually cost 700,000 to 850,000 dollars. A 40 foot vessel of the same type costs 300,000 to 350,000 dollars. Offshore lobster vessels of 70 feet vary from 450,000 to 650,000 dollars, inshore lobster boats cost between 110,000 and 150,000 dollars.

Few Rhode Island banks actively make loans for purchase of fishing vessels at the present. Those that do require a down payment of 20 to 40 percent of the cost of the vessel, with 40 percent being preferred. Interest rates vary between 1.5 to 3.0 percent over prime with the length of the loan between five and fifteen years. Full insurance is required, as well as, additional collateral. The entity receiving the loan must also demonstrate past experience in vessel ownership and/or operation. In general, it is currently difficult to get a loan to purchase a vessel and will likely remain difficult throughout the 1990s.

The current Rhode Island fishing fleet consists of about 217 vessels. Each year about 35 vessels from other states fish out of Rhode Island on a seasonal basis. Among
other places, Rhode Island vessels also land fish in New York, Massachusetts, and Connecticut, as well as deliver fish to joint venture vessels.

In 1988, there were 27 active CCF agreements in Rhode Island with 31 active vessels which accounted for 1.06 percent of the active CCF agreements and 0.81 percent of the vessels using the CCF in the nation. On a national basis, in 1988, Rhode Island accounted for a smaller share of CCF agreements and vessels, than they did for value of fish landed (Rhode Island, accounted for 1.97 percent of the value of fish landed in the United States in 1988).

Between 1970 and 1988, Rhode Island fishermen deposited 7.7 million dollars into CCFs while they withdrew 7.2 million. This left a total of half a million dollars in the CCFs of Rhode Island vessel owners in 1988. Hence, Rhode Island fishermen accounted for 1.06 percent of the money deposited and 1.21 percent of the money withdrawn from the Program during this period. Rhode Island CCF users accounted for 0.37 percent of the unused monies in CCFs in 1988. On a national basis, in 1988 Rhode Island accounted for a smaller share of CCF deposits, withdrawals, and unused Funds, than it did for value of fish landed. Therefore, relative to the value of fish landed in 1988, Rhode Island fishermen used the Program in a manner less than proportional to their landings.
In 1988, Rhode Island fishermen had 6.49 percent of the cumulative deposits since 1970 left in CCFs. Compared to the national average of 18.73 percent, this indicates that Rhode Island CCF users have withdrawn most of the money that has been deposited into the Program and are not very active at the present time. It may also reflect that there was relatively widespread use of the Program at one point in the past. In general, the CCF has not been used very extensively by Rhode Island fishermen.
CHAPTER III

HISTORY OF THE CAPITAL CONSTRUCTION FUND

Introduction

Prior to 1970, tax deferrals for the purposes of constructing new vessels were, for the most part, only available to U.S. liner ship foreign trade operators who were receiving operating differential subsidies (ODS). Neither ODS nor tax deferrals were available to U.S. foreign trade bulk vessels. The tax deferral program is known as the Capital Reserve Fund (CRF) and was contained in section 607 of the Merchant Marine Act of 1936. Vessel owners receiving ODS were required to deposit depreciation on subsidized vessels along with a percentage of annual profits in excess of 10 percent of capital necessarily employed as (the Secretary of Commerce determines) was necessary to build up a fund to replace these ships (U.S. Congress, House, 1970, Hearing 91-23). The subsidized operator could then use the Fund to pay the principal on mortgages on the subsidized vessels; and to make disbursements for replacement vessels, additional vessels, amounts contributed for design expenses, and purchase of containers.
Section 607 also required subsidized operators to establish a Special Reserve Fund (SRF). The subsidized contractor was required to deposit all profits on their subsidized vessels in excess of 10 percent of capital necessarily employed into the SRF. Money from the SRF was then used to reimburse general funds for operating losses and to pay recapture obligations. The chief purpose of the SRF was to protect the recapture rights of the U.S. If a subsidized operator averaged more than a 10 percent net profit in any ten year period, he had to pay one-half of the net profit, up to the amount of subsidies he received, back to the government (U.S. Congress, House, 1970, Hearing 91-23). Taxes were paid on SRF funds for the year in which they were withdrawn.

Non-subsidized firms, including fishing businesses, could use the section 511 Construction Reserve Fund of the Merchant Marine Act 1936 to defer taxes on capital gains from the sale of vessels provided they purchased a replacement vessel within specified time limits (U.S. Congress, House, 1970, Hearing 91-23). Earnings could also be deposited, however, taxes would not be deferred on them.

Most of the provisions of section 607 of the Merchant Marine Act of 1936 were amended by the Merchant Marine Act of 1970. These amendments abolished the CRF and SRF and instituted the Capital Construction Fund which extended tax deferral privileges to U.S. vessels engaged in foreign
trade, noncontiguous domestic trade, Great Lakes trade, or the fisheries of the United States. Since 1970, several attempts have been made to further amend the CCF Program. Some of these have been successful, others have not.

The Law Making Process

Since most of the history of the CCF is embodied in the law making processes of the legislature, administration, and courts, it is necessary to present a brief overview of this process. The process of creating a law is very complex. A law begins as a bill that is introduced by members of Congress in either or both chambers. When similar bills are introduced in each chamber they are known as companion bills. Bills are identified by a number that they are given when they are introduced. The bill is then referred to the appropriate committee which in turn directs it to the appropriate subcommittee for hearings, review, and markup. The purpose of the hearings are to present evidence, hear testimony, and justify the bill. The bill is then marked up, or amended, and voted on by the subcommittee. Upon passing the subcommittee, the bill moves to the full committee where it is reviewed, marked up, and voted on.

When a committee favorably votes on a bill, it is reported to the full House or Senate with explanations of the bill's history, need, and intent. In the Senate, if the bill is reported favorably, it then moves to the Senate floor for a vote and, perhaps, amendments. In the House,
the bill goes to the House Rules Committee where it is scheduled for debate on the floor. Once the bill is debated it moves on the floor for a vote and, possibly, amendments.

If there are companion bills, each bill usually moves through its respective chamber in the process described above. If the bill was only introduced in one chamber, and is passed by that chamber, the bill is referred to the other chamber. Similarly, if there were companion bills, but no action was taken by one chamber, the chamber that made no action on the bill will receive the bill of the other chamber for a vote.

When a bill is passed by both chambers or when companion bills are passed by respective chambers, there are usually discrepancies in the language of the bill(s) from either the original or amended language. Thus, it is necessary for members of the House and Senate to meet in a Conference Committee where the disparities in the House and Senate bills are reconciled. If no agreement is reached, the bill is dead. If an agreement is reached, the Conference Committee reports the bill to each chamber and it goes back to both floors for a final vote. A Conference bill cannot be amended on the floor, it must be voted on as reported.

If the Conference bill passes both the House and Senate it goes on to the President for approval. The President can sign the bill making it a law, veto the bill, or pocket veto it. A bill has until the end of a Congress to become a
law. Each Congress lasts two sessions, each of which is a year long. If a bill does not become a law in that time, it must start all over again in the next Congress. When a law is passed, it is given a public law number, then the various components of the law are categorized and placed in the United States Code, which is arranged by subject.

Since laws are usually very broad and are designed as policy guidelines, it is up to the Administration or executive branch of the government to determine how the law is going to be implemented. This is done through the issuance of rules and regulations which are more specific and define any ambiguous terms or fill in holes left in the language of the law. Each law gives implementing authority to Executive agencies which have technical expertise in the area covered by the law.

The Executive agency reviews the law and proposes rules and regulations to carry it out. The proposed rules and regulations are reviewed by the Office of Management and Budget (OMB). With OMB approval, they are published in the Federal Register (FR) and the public is given at least 30 days to respond with comments. Hearings may also be scheduled on the proposed rules and regulations. Once comments have been received, the agency then goes through the comments and suggestions and makes any changes it feels are necessary. The final rules and regulations are once more reviewed by OMB and then published in the Federal
Register. After publication in the Federal Register rules and regulations are categorized into topical areas and placed in the Code of Federal Regulations (CFR).

The Judiciary or court system is used to determine if laws, rules, and regulations are legal; to address ambiguities in the law; and to make decisions with regard to situations that are not specifically covered by the law. Several legislative, executive, and ad-hoc entities also act in advisory capacities, rather than or in addition to direct law making. The following history is categorized by actions that were legislative, administrative (executive), judicial, and advisory.

Action Taken in 1969

Legislature, Ninety-First Congress, First Session

In 1969, the Nixon Administration developed and submitted to Congress a program to increase shipbuilding activity and modernize the U.S. merchant marine operating in the foreign trades (U.S. Congress, House, 1969, Document 91-183). This Maritime Program included many plans and subsidies for the shipbuilding and ship operating industries. One small part of this program was to extend privileges of tax deferred deposits for new ship construction to include all qualified U.S. ship operators in the foreign trades, if they had a well defined ship
replacement program (U.S. Congress, House, 1969, Document 91-183). The whole intention of the tax deferral was to provide for vessel replacement in the U.S. foreign trades to be built in U.S. shipyards (U.S. Congress, House, 1970, Hearing 91-17).

In a subsequent Congressional hearing, on October 28, members of the House questioned the Administration on the applicability of extending this program to vessels operating in the Great Lakes trade (U.S. Congress, House, 1970, Hearing 91-17). The Administration replied by stating that the main priority was foreign trade and domestic vessels would fall under a program to be developed in the future. Members of the House asked the Administration to investigate the cost and feasibility of including the Great Lakes fleet in the Program. On the subject of extending tax deferments to the Great Lakes, the Administration indicated that the earnings of these operators were so small and their vessels were so depreciated that the benefits they would accrue from a tax deferral would be minimal (U.S. Congress, House, 1970, Hearing 91-17). A passing statement was also made to the Administration requesting them to develop a program for the replacement of the obsolete U.S. fishing fleet of 13,000 vessels (U.S. Congress, House, 1970, Hearing 91-17).

During a second hearing, on November 6, the Administration defined a qualified operator as one who had the managerial ability to properly operate a fleet and the financial resources to replace that fleet (U.S. Congress,
House, 1970, Hearing 91-17). The Administration also reaffirmed its stance not to extend the Program to domestic or Great Lakes vessels.

During 1969 and in previous years, several bills were introduced to allow the deposit of earnings into Construction Reserve Funds provided for in section 511 of the Act. However, little action was taken on these bills.

**Action Taken in 1970**

Legislature, Ninety-First Congress, Second Session

A series of hearings were held on amending the Merchant Marine Act of 1936 during the early portion of the Second Session of the 91st Congress (U.S. Congress, House, 1970, Hearing 91-23). The hearings focused on the review of three bills aimed at extensively amending the whole Act: HR 15424, HR 15425, and HR 15640. There was also a companion bill (S 3287) to HR 15424. With regard to section 607, these bills abolished the SRF (because in other sections they abolished the ODS recapture provisions which the SRF was created to protect) and amended the CRF by extending tax deferral privileges to all U.S.-flag operators in the foreign trade (including bulk operators) who have an agreement with the Secretary of Commerce to build vessels (U.S. Congress, House, 1970, Hearing 91-23).
The bills also provided for interest payments on withdrawals that were made and not reinvested into another vessel immediately. Under the existing provisions, a company could withdraw funds and have no specified time with which to reinvest them. Since, it was difficult to administer the Program, as CRF provisions were not part of the Internal Revenue Code, the bills called for the Secretaries of Treasury and Commerce to jointly issue regulations to deal with tax matters (U.S. Congress, House, 1970, Hearing 91-23). During the hearings, the Treasury Department pointed out the need to limit the amount of money a company could put in a reserve fund and the amount of time money can stay in a reserve fund (U.S. Congress, House, 1970, Hearing 91-23).

Generally, all agencies and interest groups were in favor of the bills. The Shipbuilders Council of America had no comment on Section 607 save that they have long supported the concept of supporting shipbuilding and thought that capital reserve funds should be used for new shipbuilding in preference to anything else (U.S. Congress, House, 1970, Hearing 91-23).

Once again, application of the Program to the Great Lakes trade was discussed. Various Congressmen argued that the vessels in this fleet were operating in a foreign trade, but also needed to operate in the domestic trade to stay alive. The vessels were competing with the Canadians who were indirectly subsidized through tax policies; and that
the fleet was aging (U.S. Congress, House, 1970, Hearing 91-23). The Administration still took the position that it should not be included in the Program. Inclusion of the domestic vessel operators was also debated, however, the Administration maintained that these vessels were aided by cabotage and inclusion in the Program would put them at an unfair advantage over other forms of transportation (U.S. Congress, House, 1970, Hearing 91-23).

An argument was also presented for including the noncontiguous domestic trades. Proponents argued that Alaska, Hawaii, and Puerto Rico were largely dependent on the mainland to meet their essential needs of life, health, and economic development. In varying degrees of intensity, they were dependent on the mainland for foodstuffs, medicines, fuel, raw material, and other essentials and under current law American-flag vessels were the only ones permitted to move this cargo (U.S. Congress, House, 1970, Hearing 91-23). Since the transportation costs associated with the use of U.S. vessels were much higher, higher prices were relayed to the consumer in these areas. The Administration was in favor of helping these trades in some manner.

A report, Economic Impact of Tax Deferred Capital Funds for Unsubsidized Vessel Operators by Ernst & Ernst (1967), was submitted to Congress. The report covers the U.S. dry cargo, Great Lakes, tanker, and fishing fleets. The report points out that the average age of the fishing fleet at that
time was twenty years old, over half of the vessels were between sixteen and forty-five years old, there were 250 vessels which were more than 55 years old, and the average age increased almost a year every two years over the previous decade. It went on to point out that the gross tonnage of the active fleet increased almost a quarter over the preceding decade and only about 70 percent of registered fishing vessels actively engaged in fishing in 1955 and 1964. It also mentions U.S. consumption of seafood had risen 73 percent while U.S. production of seafood had only risen 29 percent in the previous decade. The report concluded that contemporary unsubsidized operators need to have some means to achieve an earlier availability of investment capital in order to accomplish ship replacement.

Several witnesses called for abolishing section 511 or amending it to be equal to section 607. Fishing vessel owners could use section 511 to defer taxes on capital gains from the sale of vessels, but could not defer taxes on earnings. The proposed amendments recommended allowing the deposit of earnings in addition to capital gains and to remove the requirement that these funds be used within two years (U.S. Congress, House, 1970, Hearing 91-23). This would extend tax deferment privileges to fishermen as they were allowed to use this Program. The bills did not amend or abolish section 511 in any way. The lack of amending this section is reflective of the Administration's opinion
that the only operators who should be eligible for tax deferment on vessel earnings are those operating in the U.S. foreign trades.

Only one group, Taxation with Representation, was opposed to tax deferrals as a whole (U.S. Congress, House, 1970, Hearing 91-23). The organization pointed out that disadvantages of the Program are the loss in the depreciable basis of the vessel acquired with the Fund and the high costs incurred by the construction and operation of the vessel under the U.S.-flag. This organization argued that the amount that tax deferred reserve funds cost the government each year had never been precisely estimated and the Program may not even result in construction of additional vessels. In other words, vessels taking advantage of the Program may have been built even if they did not use the Program. Additionally, the government would never know how much it is going to spend each year on a tax deferral subsidy. The organization noted that other businesses are not allowed tax deferrals and this puts them at a disadvantage. The group said that if the tax deferral was to remain it should have some upper limit on the dollar amount of the tax benefits that a company can get, and there should be provisions to insure that money is spent on vessels and not used as a way to take advantage of the tax system.

The organization felt that direct loans would be a more economical and effective method of government aid. It felt
an expanded loan program would help facilitate Congressional control, public scrutiny, and eliminate waste. In addition, loans could be directed to where they would be most needed.

HR 15424 was referred to the Committee on Merchant Marine and Fisheries. Based on information gathered during the hearings, the Committee amended the bill and submitted a report to the full House on May 12, 1970 (U.S. Congress, House, 1970, Report 91-1073). Section 607 of HR 15424 was amended in several ways. The new language abolished both the Special Reserve Fund and Capital Reserve Fund. The tax deferral program was instead called the Capital Construction Fund and was available to U.S. vessels operating in the Foreign, Great Lakes, and noncontiguous domestic trades, as well as the fisheries of the United States. For the most part, the Program was open to citizens of the U.S. who own or lease U.S.-built and documented vessels operating in the foreign or domestic trades or fisheries of the U.S.

The bill provided a ceiling on the amount of money that could be deposited in a fund and maintained three separate accounts for bookkeeping purposes. Money deposited would be tax deferred and withdrawals could only be made for the purpose of acquiring vessels used in the aforementioned trades. The amounts withdrawn, however, would reduce the depreciable basis of the vessel acquired with the Fund. Withdrawals made for purposes other than acquiring another vessel would be subject to tax in the year of withdrawal and charged interest on the tax from the date of deposit.
The bill made the Department of Commerce the administrator for the Program. Within that department, NMFS would administer the program for fishing vessels, while the Maritime Administration (MarAd) would have that duty for all other vessels. The bill also provided a statutory link to the Internal Revenue Code by calling for joint tax regulations to be developed by the Departments of Commerce and Treasury. In general, the language of this bill was the same as the law currently reads (see Chapter IV, pp. 141-162).

The Committee cited several reasons for supporting the tax deferral privileges offered by the bill (U.S. Congress, House, 1970, Report 91-1073). U.S.-flag vessels operating in foreign trades were at a disadvantage since fleets of other nations were highly subsidized, including tax deferrals and exemptions, and some nations did not have income tax (U.S. Congress, House, 1970, Report 91-1073). Vessels operating in the noncontiguous domestic trades were older, had been built at full American costs and consequently, freight rates for those trades reflected the full cost of the vessel (U.S. Congress, House, 1970, Report 91-1073). The point was made that this had a serious impact upon the economy of the noncontiguous states of Alaska and Hawaii, as well as Puerto Rico and the various possessions.

The Committee stated that the Great Lakes fleet had dwindled rapidly over the past ten years and over 80 percent of the ships were more than 25 years old (U.S. Congress,
House, 1970, Report 91-1073). The Committee argued that these operators needed the tax deferred benefits to modernize and reconstruct their vessels just as much as they needed it for new ones. The Committee also reported that the U.S. fisheries fleet needed modernization as well as expansion (U.S. Congress, House, 1970, Report 91-1073).

The provisions were expected to help ship operating and thus the shipbuilding industry (U.S. Congress, Senate, 1970, Report 91-1080). The purpose of the bill as a whole was to provide for a long range merchant shipbuilding program (U.S. Congress, House, 1970, Report 91-1073).

The House passed the bill on May 21, 1970 (U.S. Library of Congress, 1971, 91-2, Part 1). The Bill was subsequently reported to the Senate on August 10, 1970 by the Committee on Commerce (U.S. Congress, Senate, 1970, Report 91-1080). The Senate gives the same reasons as the House for extending tax deferral privileges to all U.S. vessels in the foreign, Great Lakes, noncontiguous domestic trades, and fisheries of the U.S. (U.S. Congress, Senate, 1970, Report 91-1080). In the case of the noncontiguous domestic trades, the Senate adds that the situation is exacerbated by the lack of alternative methods of transportation (i.e. railroads and highways).

The Senate made some minor amendments to the bill and passed the bill September 17, 1970 (U.S. Library of Congress, 1971, 91-2, Part 1). Since the House version of the bill did not pass with the Senate amendments, a
Conference Committee was held to work out the differences in the two versions of the bill. The differences in the two bills were reconciled and stated in a Conference Report issued on October 2, 1970 (U.S. Congress, House, 1970, Report 91-1555). The House agreed to the Conference Report on October 6, 1970, the Senate on October 7, 1970 (U.S. Library of Congress, 1971, 91-2, Part 1).

The Department of Commerce objected to extending tax deferral privileges on earnings to vessels operating in the Great Lakes trade, noncontiguous domestic trade, and fisheries of the U.S. (U.S. Congress, Senate, 1970, Report 91-1080). The Department stated that foreign-flag vessels are not permitted to operate in these trades and the reasons that existed for extending tax deferment to vessels operating in foreign trade do not apply to these vessels. The Treasury Department also opposed extension of tax deferral privileges of the CCF to profits derived from shipping in the noncontiguous trade, trade on the Great Lakes, and from fishing operations (U.S. Congress, House, 1976). The bill became Public Law 91-469 on October 21, 1970 (U.S. Library of Congress, 1971, 91-2, Part 1).

Action Taken in 1971

Responsibility for administration of the fisheries portion of the CCF went to NMFS, while MarAd administered the Program for all other types of vessels. Both of these
agencies were in the Department of Commerce. The IRS, in cooperation with the Department of Commerce, was responsible for technical tax aspects of the CCF.

On April 6, 1971, MarAd, issued proposed rules for application requirements for Interim Capital Construction Fund Agreements (36 FR 6519). The Interim CCF Agreement was necessary because regulations for the permanent CCF Agreements were still being developed. On October 9, 1971, NMFS issued final rules for application to its Interim CCF Program (36 FR 19699). It stated that their Interim Agreement was essentially the same as the MarAd Interim Agreement, thus no proposed rule was issued. NMFS did, however, request comments regarding the contents and form of the permanent CCF Agreement and related regulations (36 FR 19699).

On December 23, 1971, the IRS approved temporary regulations for execution of agreements and deposits made in a CCF (36 FR 25228).

Action Taken in 1972

Administration

The IRS and MarAd jointly issued proposed regulations concerning the federal income tax aspects of the CCF Program on June 15, 1972 (37 CFR 11877 and 37 CFR 11886). During October of 1972, MarAd issued proposed regulations for the permanent CCF (37 FR 21335). On November 25, 1972, NMFS
published the temporary regulations on execution of agreements and deposits made in a CCF, which were developed earlier in 1971, to inform the fishermen of the process (37 FR 25024).

Action Taken in 1973

Legislature, Ninety-Third Congress, First Session

In 1973, companion bills (HR 7395 and S 902) were introduced with the intent of extending the use of the CCF to vessels that operate between points within noncontiguous states and territories. The CCF Program, as passed in 1970, only allowed use for vessels that traded between the 48 contiguous states on the one hand and noncontiguous states on the other; trade between noncontiguous states and territories; and trade between the islands of Hawaii (U.S. Congress, Senate, 1973, Report 93-273). The rationale for the amendment was that although there were few companies that traded solely within a noncontiguous state or territory, most also traded between noncontiguous states and territories (U.S. Congress, Senate, 1973, Report 93-273). The definition of noncontiguous trade was ambiguous as to whether vessels built with CCF monies would be able to trade within these areas (U.S. Congress, House, 1973, Report 93-486). Since the interstate trade is more valuable than intrastate trade, companies would abandon intrastate trade

Hearings held by the House Merchant Marine and Fisheries Committee reveal that there were no objections to either bill (U.S. Congress, House, 1973, Hearing 93-21). Both bills were reported favorably to and passed by their respective legislative bodies (U.S. Library of Congress, 1974, 93-1, Part 1). The Senate bill, S 902, went on to the House and was passed in lieu of HR 7395, thus becoming PL 93-116 (U.S. Library of Congress, 1974, 93-1, Part 1).

Administration

In 1973, NMFS published a minor technical amendment to the temporary regulations regarding execution of agreements and deposits made in a CCF (38 FR 8163). The amendment regarded the grandfathering of existing capital and special reserve funds.

Action Taken in 1974

Administration

NMFS, on June 19, 1974, issued proposed procedural rules for governing administration of the Interim Fishing Vessel CCF Program (39 CFR 21161). These proposed procedural rules established the conditions under which the
acquisition, construction or reconstruction of fishing vessels are qualified for CCF benefits; established the effect of CCF Agreements on the adoption of conditional fisheries; and established other procedures necessary to properly administer Interim CCF Agreements (39 CFR 21161). These regulations were adopted on September 19, 1974 with minor amendments (39 CFR 33675).

**Action Taken in 1975**

**Legislature, Ninety-Fourth Congress, First Session**

In February of 1975, the Senate Select Committee on Small Business held a hearing to examine economic and loan problems confronting the fisheries industry. The hearing emphasized New England, specifically Maine, and reviewed loan programs of the Small Business Administration (SBA); as well as the Fisheries Loan Fund, Fishing Vessel Obligation Guarantee Program, and the Capital Construction Fund Program administered by NMFS.

At the time of the hearing, the majority of the SBA loans in the Maine district were for shoreside facilities and related businesses, very few went to fishermen (U.S. Congress, Senate, 1975). It was noted that, SBA only had authority to loan fishermen funds for:

1. The shore operation phase of a fishery industry
2. working capital loans;
3. purchase of a used vessel of any size;
4. purchase of a new vessel five net tons or less; and
5. emergency energy shortage loans.

Loans to purchase fishing vessels over five net tons were handled by NMFS (U.S. Congress, Senate, 1975).

NMFS administered three programs at the time of the hearing. The Fishing Vessel Obligation Guarantee Program authorized the U.S. Government to guarantee private debt obligations up to 75 percent of the actual cost of constructing, reconstructing, or reconditioning domestic fishing vessels of five net tons or over. In the ten years preceding the hearing, the Program was responsible for about $48 million worth of fishing vessel construction (U.S. Congress, Senate, 1975).

Between the implementation of the CCF in 1970 and the time of the hearing, NMFS reported that about $60 million had been deposited in CCFs with about $35 million withdrawn—representing over a ten year period scheduled construction, reconstruction, and acquisition objectives with an estimated capital value of over $300 million (U.S. Congress, Senate, 1975). However, it was noted that in some segments of the fishing industry where rates of return on investment had for some years been marginal, the CCF had not been used since the majority of operators were not generating taxable profits sufficient to make the Program attractive to them (U.S. Congress, Senate, 1975). Although there were some CCF users in New England, use of the Program in this region was
marginal. New England did, however, have 48 agreements with about $9 million deposited and $5.5 million withdrawn, and $25 million worth of construction under it (U.S. Congress, Senate, 1975).

In 1975, the Fisheries Loan Fund was a $13 million revolving fund which had made over $32 million in direct government loans for financing and refinancing the cost of purchasing, constructing, equipping, maintaining new or used commercial fishing vessels (U.S. Congress, Senate, 1975). In March of 1973, the Fisheries Loan Fund was placed under administrative moratorium because of low available lending reserves. The General Accounting Office (GAO) issued a report which concluded, in part, that the Program as constituted was not meaningful in creating a more efficient and competitive U.S. fishing fleet (U.S. Congress, Senate, 1975).

While the Capital Construction Fund was authorized by Congress in 1970, the issuance of its regulations, which were the joint responsibility of the Treasury and Commerce Departments, were still delayed in 1975 due to a difference of opinion between these two departments as to the effect of the use of qualified withdrawals from CCFs on the availability of investment tax credit. Treasury held that any vessel purchased with CCFs were not eligible for investment tax credit on the amount withdrawn from the Fund. Commerce held that vessels purchased with the CCF were eligible for the investment tax credit.
Investment tax credits were a direct reduction of income taxes taken in the year in which an asset was first placed into service (Garrison, 1982). The amount of the income tax reduction was computed by applying a specified percentage to the cost of the asset acquired (Garrison, 1982). These credits were allowed in addition to depreciation deductions and taken on investment in property, plant, and equipment (Eskew and Jensen, 1983).

Deferred taxes of the CCF are recovered by reducing the depreciable basis of the acquired vessel by the amount of tax deferred funds used in its acquisition. In this manner, the amount of depreciation a vessel owner can claim is reduced, thus the government is able to recover the deferred taxes by not allowing the vessel owner to claim depreciation expenses. Therefore, for the purposes of depreciation, a vessel which is acquired completely with tax deferred funds, has no tax basis.

The amount of investment tax credit a company could receive for purchase of an item was determined by the item's tax basis. The IRS thus deduced that if a vessel were acquired with CCF monies, then the tax basis for investment tax credit purposes would also be reduced accordingly (U.S. Congress, Senate, 1975, Report 94-96). The IRS went one step further by ruling that qualified withdrawals for amortization of vessel indebtedness caused that property to cease to be eligible for investment tax credit (U.S. Congress, Senate, 1975, Report 94-96). In this context, a
vessel acquired completely with CCF monies would also have no tax basis for the purposes of investment credit. To compound the situation, when the legislation containing provisions for the CCF was passed in 1970, the investment tax credit had been repealed in 1969, thus Congress did not specify directly whether or not vessels acquired with the CCF would also be eligible for investment tax credit (U.S. Congress, Senate, 1975, Report 94-96). However, in 1971 Congress reinstituted investment tax credits (U.S. Congress, Senate, 1975, Report 94-96).

The Senate, issued a bill, S 1542, which authorized maritime appropriations for the fiscal year 1976 and allowed for investment tax credit for CCF withdrawals. The Senate Commerce Committee felt that the Treasury Department's stance on this issue defeated the policy of Congress set forth in section 607 and had discouraged utilization of the CCF Program (U.S. Congress, Senate, 1975, Report 94-96). In other words, the Senate Commerce Committee believed that the tax basis of vessels acquired with CCF monies were reduced for the purposes of depreciation only, not for investment tax credit. The purpose of amending the CCF was to clarify that the intent of Congress was to allow investment tax credit for CCF withdrawals (U.S. Congress, Senate, 1975, Report 94-407).

The House bill, HR 3902, to authorize maritime appropriations for the fiscal year 1976 did not contain language to amend the CCF Program. While S 1542 was passed
into law on November 13, 1975, the provision to clarify the intent of Congress with regard to the CCF was deleted to avoid delaying the bill (U.S. Congress, Senate, 1975, Report 94-407). The House Merchant Marine and Fisheries Committee and Ways and Means Committee agreed that section 607 had been erroneously interpreted by the Treasury Department and the House Ways and Means Committee took the lead in investigating the matter (U.S. Congress, House, 1975, Report 94-529).

The House Committee on Ways and Means held a hearing on December 15, 1975 on the eligibility of CCF withdrawals for investment tax credit. The Treasury Department argued against investment tax credit for CCF withdrawals. It contended that the investment tax credit was calculated on tax cost and since the CCF deferred the tax, the property acquired with those funds had no tax cost (U.S. Congress, House, 1976). It also argued that regulations stated that investment tax credit is only allowed on those portions of property that have a depreciable basis (U.S. Congress, House, 1976). Furthermore, the Department calculated that if investment tax credits were used in addition to the CCF the owners of these vessels would have significantly increased benefits (U.S. Congress, House, 1976). The Treasury Department believed that if the intent of making CCF withdrawals eligible for investment tax credit was to increase the subsidy available to vessel owners, then it
should be done through direct appropriations or by abolishing the CCF and using investment credit alone (U.S. Congress, House, 1976).

The Department of Commerce was in favor of the eligibility of investment tax credit for CCF withdrawals and concurred with the Senate (U.S. Congress, House, 1976). It stated that at the time the Merchant Marine Act of 1970 was passed, investment tax credit was under suspension, so Congress had no need to address the issue. However, the Department's position was that when enacting the CCF Program, Congress did not intend to deny U.S.-flag operators any other benefits such as investment tax credit (U.S. Congress, House, 1976). The position of the House Merchant Marine and Fisheries Committee, the architect of the 1970 version of the CCF, was that utilization of the CCF was never intended to deny the operator the benefits of the investment tax credit (U.S. Congress, House, 1976).

Virtually every segment of the U.S. maritime industry: shipbuilding, ship operating, labor and management, companies in international trade and domestic trade, the Great Lakes maritime industry, and U.S. fisheries were in support of the eligibility of investment tax credit for CCF withdrawals (U.S. Congress, House, 1976 and U.S. Congress, Senate, 1975, Hearing 94-2). They maintained that the CCF was a form of accelerated depreciation and other methods of accelerated depreciation were permitted in connection with investment tax credit (U.S. Congress, House, 1976).
The group Taxation With Representation opposed the eligibility of CCF withdrawals for investment tax credit, saying that the main beneficiaries would not be those in the foreign trades, but oil companies, steel companies, and banks (U.S. Congress, House, 1976). Gerald Jantscher, Research Associate at Brookings Institution, recommended that a limited investment tax credit be allowed for the purchase of capital assets with tax deferred moneys from shipowner's CCFs. He recommended one half or seven-tenths of the normal credit be given which would reflect the amount of money which was after tax money (i.e. the amount of money the vessel owner would have to invest if he had not used the CCF) (U.S. Congress, House, 1976).

In November of 1975, HR 10551 was introduced for the purpose of amending the Internal Revenue Code to state that the amount of investment tax credit allowed for a vessel would not be reduced by use of the CCF (U.S. Library of Congress, 1976, 94-1, Part 2). No action was taken on the bill. Another bill, HR 10612, was introduced around the same time to revise the tax laws (U.S. Library of Congress, 1976, 94-1, Part 2). No action was take on HR 10612 until 1976.
Action Taken in 1976

Legislature, Ninety-Fourth Congress, Second Session

HR 10612 was intended to amend several provisions of the tax laws. In its original form as introduced in the House, and the form in which it was reported to the House there was no mention of the CCF. However, when the bill went to the Senate in June of 1976, the Senate Committee on Finance amended the bill to allow investment tax credits on vessels purchased through use of the CCF (U.S. Congress, Senate, 1976, Report 94-938). The Committee thought not allowing investment tax credit in the case of ships built from monies taken from tax deferred construction funds had the effect of reducing the inducement to use this program thereby defeating the purpose for which it was designed (U.S. Congress, Senate, 1976, Report 94-938). It felt that investors would put their money into another business that could use investment tax credit (U.S. Congress, Senate, 1976, Report 94-938). It was estimated that the amendment would result in a reduction of $21 million in revenues in the fiscal year 1977, $23 million in fiscal year 1978, and $45 million in fiscal year 1981 (U.S. Congress, Senate, 1976, Report 94-938).

While only a small fraction of HR 10612 was pertinent to the CCF, industry representatives were present at a hearing before the Senate Finance Committee in July of 1976.
to voice support for the extension of investment tax credit for property acquired with the CCF (U.S. Congress, Senate, 1976).

Because of differences in the House and Senate versions of the bill, a Conference was held to reconcile the two bills. The conference agreement provided for an investment credit of one half the regular credit on the tax deferred amounts withdrawn from the CCF which are used to purchase qualified vessels (U.S. Congress, House, 1976, Report 94-1515). Taxpayers were also left with the right to obtain a court determination as to whether they were, under already existing law, also eligible for the other half of the regular investment credit (U.S. Congress, Senate, 1976, Report 94-1236).

The Senate made another amendment which allowed the minimum size of a vessel eligible for the CCF two net tons instead of five net tons (U.S. Congress, Senate, 1976, Report 94-1236). The conference agreement followed the Senate amendment (U.S. Congress, House, 1976, Report 94-1515).

The bill was approved in October of 1976 and is referred to as the Tax Reform Act of 1976 (PL 94-455) (U.S. Library of Congress, 1977, 94-2, Part 2). The Tax Reform Act of 1976 made two major changes to the CCF Program. The Act allowed commercial fishing vessels of two net tons and over to be eligible for the CCF Program (Bender, 1980). Previously, fishing vessels had to be at least five net tons.
to qualify. The Act also provided that 50 percent of the qualified withdrawals out of the untaxed portion of the capital gain account or out of the ordinary income account would be treated as qualified investment for investment tax credit purposes (Bender, 1982). Previously no investment credits were allowed.

Administration

On January 29, 1976, the IRS and Department of Commerce published final regulations on tax liability of parties of CCFs (41 FR 4257 and 41 FR 5810). These final rules were certain sections of the proposed rules that were published on June 15, 1972 with some amendments based on public comments (41 FR 4257 and 41 FR 5810). On the same day, the IRS issued proposed rules to replace the sections of the proposed rules issued in 1972 that were not adopted on this day (41 FR 4280). On June 14, 1976, MarAd printed these rules to provided persons working in the maritime industry easy access to the joint CCF regulations (41 FR 23960). Accordingly, a new section was established in the shipping section of the Code of Federal Regulations where these rules were reprinted (41 FR 23960).

Also in January of 1976, MarAd adopted regulations for its permanent CCF Program (41 FR 4265). These final regulations were essentially the proposed regulations issued in 1972 with some amendments based on public comments (41 FR 4265). On August 8 1976, MarAd issued a rule saying that
all information on Permanent Capital Construction Fund Agreement Applications could be available to the public under the Freedom of Information Act (41 FR, August 8, 1976). Applicants were given notice to submit what information on their applications should not be public information and why (41 FR, August 8, 1976).

In September of 1976, MarAd issued regulations which provided a formula for computing liquidated damages in the case of CCF vessels that operate in trade they are not entitled to operate in (41 FR 39751). These regulations also required vessel operators to submit an affidavit pertaining to the operation of their qualified vessels (41 FR 39751).

Judiciary

In 1976, the U.S. Court of Claims made a landmark decision with regard to the CCF. In Pacific Far East Line, Inc. v. U.S., the Court said that the fact that the cost of a qualified vessel was financed in whole or in part by previously deducted or excluded funds withdrawn from a CCF had no effect on the investment credit to be allowed (U.S. Congress, Senate, 1984, Hearing 98-836).

Advisory Entities and Reports

Spurred by the declaration of a 200 mile Fishery Conservation Zone, the Department of Commerce developed a program for wise use of these resources (U.S. Department of
Commerce, 1976). Among other things, the program said there was a need to redirect and strengthen financial assistance programs for fisheries to help accumulate capital reserves for harvesting and processing (U.S. Department of Commerce, 1976). The program stated that the best way for the government to participate in capital accumulation in an equitable manner would be through tax deferrals (U.S. Department of Commerce, 1976).

In December of 1976, the General Accounting Office recommended extension of fishing vessel aid programs to shoreside facilities (U.S. Congress, Senate, 1979, Report 96-431). This same report, however, stated that federal aid to fisheries should be carefully evaluated as a review of government aid to fisheries in other countries showed that it resulted in overcapitalization (United States General Accounting Office, 1976).

Action Taken in 1977

Administration

In July of 1977, MarAd issued a technical regulation to improve the calculation of liquidated damages imposed upon an operator of a qualified agreement vessel who operates that vessel in a prohibited trade (42 FR 34282). A regulation was also issued by MarAd which lessened the limitations on investments in a fund (42 FR 34881). A MarAd regulation of August 30, 1977 amended the appendices of 46
CFR 390 (42 FR 43632). These appendices showed examples of MarAd documents used in the CCF Program. The appendices were amended to reflect the current agency documents (42 FR 43632).

On September 1, 1977, NMFS proposed a rule that would make fishing party charter vessels certified to carry six or more persons eligible for use of the CCF Program (42 FR, September 1, 1977). On December 30, 1977, NMFS issued new regulations which allowed fishing party charter vessels certified to carry six or more persons as eligible to use the CCF Program (42 FR 65185). In addition, vessels that carried under six passengers, but which could demonstrate that party fishing was the primary activity, were allowed to use the CCF (42 FR 65185). A regulation was also issued to conform with the Tax Reform Act of 1976 by allowing vessels as small as two net tons to use the CCF (42 FR 65185).

Action Taken in 1978

Legislature, Ninety-Fifth Congress, Second Session

Two bills, HR 11158 and S 2889, were introduced which would extend CCF privileges for the purposes of providing replacement, additional, or reconstructed fisheries facilities (U.S. Library of Congress, 1979, 95-2, Part 2). No action was taken on either of these two bills.
Two bills, HR 12959 and S 3378, were introduced to extend CCF privileges to all vessels in the domestic trades. A hearing was held by the House Merchant Marine and Fisheries Committee to hear comments on HR 12959.

The Treasury Department opposed the bill on the grounds that domestic vessels are protected by cabotage laws (U.S. Congress, House, 1978, Hearing 95-41). The Treasury Department stated that it was only in favor of use of the CCF by U.S.-flag operators in the foreign trades as they are at a disadvantage to foreign-flag vessels (U.S. Congress, House, 1978, Hearing 95-41). The Department of Commerce opposed the bill because Congress had considered domestic trade inclusion earlier and rejected it; the domestic trades were protected by cabotage laws; and there was a sizable amount of domestic vessel construction being done without the subsidy, therefore they did not specifically need the program (U.S. Congress, House, 1978, Hearing 95-41).

Shipbuilders were in support of the bill saying it would help in the expansion of the domestic fleet and alleviate current and prevent future unemployment in U.S. shipyards due to fewer available construction contracts (U.S. Congress, House, 1978, Hearing 95-41). Domestic operators favored the bill because it would help U.S. shipyards and because they felt they were also in competition with foreign trade as many products carried on the Mississippi River system could be taken out the Great Lakes or could be imported on foreign vessels from other

During the course of the hearing, the fact that funds from foreign subsidiaries of U.S. companies are not subject to taxation if they are used to construct foreign-flag vessels, but they would be taxed if they were brought in to the U.S. and used to construct U.S.-flag vessels was mentioned (U.S. Congress, House, 1978, Hearing 95-41). The Committee also mentioned the possibility of amending the CCF to allow U.S. shareholders of foreign-flag vessels to invest earnings from those vessels into a CCF to build U.S.-flag vessels for qualified trades. The Department of Commerce thought that the issue should be considered (U.S. Congress, House, 1978, Hearing 95-41).

On August 25, 1978 the House Committee on Merchant Marine and Fisheries reported HR 12959 to the House. The Committee stated that the purpose of the bill was to stimulate the construction of U.S.-flag vessels in the ailing domestic shipyards (U.S. Congress, House, 1978, Report 95-1525). In order to accomplish this task, the bill provided for the extension of CCF privileges to all vessels operating in the domestic commerce (U.S. Congress, House, 1978, Report 95-1525). A second method of accomplishing this task was added to the bill after the hearing. This second method was to allow U.S. owners of foreign-flag or
foreign-built ships to deposit earnings from those ships in the CCF, for the construction of U.S.-flag vessels in U.S. shipyards (U.S. Congress, House, 1978, Report 95-1525). No further action was taken on the bill.

Four bills, HR 12186, HR 12323, HR 12801, and HR 14257, were introduced with the purpose of, among other things, disallowing exclusions from gross income for interest earned on government securities and for amounts used for shipping industry construction (U.S. Library of Congress, 1979, 95-2, Part 2). No action was taken on any of these bills.

On June 7 and 23, 1978 hearings were held before the House Merchant Marine and Fisheries Committee's Subcommittee on Oceanography to review the status of renewable ocean energy resources. During discussions on financing Ocean Thermal Energy Conversion (OTEC) plants, it was pointed out that while some OTEC plants may be classifiable as ships, they would not be eligible for the CCF Program (U.S. Congress, House, 1978, Hearing 95-45). This was due to the fact that MarAd regulations require that in order for vessels to be eligible for the Program they must be engaged in the waterborne carriage of men, materials, goods, or wares (U.S. Congress, House, 1978, Hearing 95-45).

Administration

In November of 1978, MarAd issued a rule that added repurchase agreements to the list of permissible investments in which a fundholder may invest CCF assets (43 FR 51636).
This would allow fundholders to make investments on a short term basis with cash that would have otherwise been idle (43 FR 51636).

**Action Taken in 1979**

**Legislature, Ninety-Sixth Congress, First Session**

Several bills on the CCF were introduced in 1979. Three of them, HR 2330, HR 5570, and S 1656, included provisions for extending CCF privileges to shoreside fishery facilities (U.S. Library of Congress, 1980, 96-1). No action was taken on HR 2330 and HR 5570.

The Senate bill, S 1656 did not originally contain language on the CCF. It, like its companion bill HR 5570, contained several provisions to promote the development of a strong U.S. fishing industry (U.S. Congress, Senate, 1979, Report 96-431). The Senate Commerce, Science, and Transportation Committee reported the bill to the full Senate in November of 1979. The version of the bill that was reported did contain language to extend the CCF to shoreside fishery facilities (U.S. Congress, Senate, 1979, Report 96-431). The Committee explained that the reason for this extension was because NOAA in its draft Fisheries Development Task Force Report stated that the lack of port and harbor facilities is one of the major impediments to development of underutilized species (U.S. Congress, Senate, 1979, Report 96-431). It also cited a report by the
Conservation Foundation which concluded that the major problem of expanding fisheries in many ports is the lack of shoreside facilities (U.S. Congress, Senate, 1979, Report 96-431). The bill passed the Senate and was referred to the House Committee on Merchant Marine and Fisheries (U.S. Library of Congress, 1980, 96-1).

In December of 1979, the House Merchant Marine and Fisheries Committee held a hearing on fisheries development (U.S. Congress, House, 1980, Hearing 96-45). The fishing industry was in favor of extending CCF provisions to shoreside facilities because it would help expand shoreside landing and processing facilities to catch up to harvesting capacity, especially in the case of underutilized species, in an economically efficient manner (U.S. Congress, House, 1980, Hearing 96-45). However, some industry members stated that the Program cannot just support the underutilized species, but must maintain the viability of the traditional species as well (U.S. Congress, House, 1980, Hearing 96-45). The Administration opposed the extension of the CCF Program to shoreside fishery facilities, but said they would evaluate the benefits and costs of such an extension (U.S. Congress, House, 1980, Hearing 96-45). In 1980, S 1656 passed the House with amendment in lieu of HR 7039 (U.S. Library of Congress, 1981, 96-2, Part 1). The Senate agreed to House amendment with amendment, then the House agreed to Senate amendment with an amendment under suspension of rules
The provisions for the CCF were marked out by one of the amendments and no further actions were taken on the bill. Another bill, S. 197, was introduced in the Senate which would allow the use of the CCF to acquire, construct, or reconstruct vessels for use in the domestic trade (U.S. Library of Congress, 1980, 96-1). Another bill, HR 171, was introduced in the House which would prohibit domestic shipping companies from using the CCF in order to construct a vessel to operate in the U.S. foreign, Great Lakes, or noncontiguous domestic trades or in the fisheries of the U.S. (U.S. Library of Congress, 1980, 96-1). A domestic vessel can deposit earnings in a CCF as long as those earnings go to acquire, construct, or reconstruct a vessel in any of the approved trades. An additional bill, S 1457, was introduced which would allow a dry bulk cargo vessel to be removed from documentation in the U.S. after ten years of documentation instead of 25 years, for the purpose of selling the vessel to a person who is not a citizen of the U.S. (U.S. Library of Congress, 1980, 96-1). The net proceeds of the sale would have to be put in a CCF and the contracting for a new dry bulk cargo replacement vessel would have to begin within one year (U.S. Library of Congress, 1980, 96-1). No action was taken on any of these bills.
A bill designed to reform, revitalize, and reorganize the maritime industry, HR 4769, included language to:

1. extend use of the CCF to U.S. citizens who were owners and lessees of foreign-flag vessels and to foreign-built U.S.-flag vessels;
2. allow CCFs to be used to acquire, construct, or reconstruct vessels for use in the domestic and international (cross) trades; and
3. increase the investment tax credit for qualified withdrawals from CCFs (U.S. Library of Congress, 1980, 96-1).

A series of hearings were held on the bill in 1979. MarAd was generally supportive of use of the CCF by U.S. vessels engaged in cross trades as it pertained to bulk vessels, but not as it pertained to liner ships (U.S. Congress, House, 1980, Hearing 96-23). MarAd also agreed that the extension of the Program to build domestic vessels had merit, as well as the extension to foreign-built U.S.-flag vessels (U.S. Congress, House, 1980, Hearing 96-23). MarAd thought, however, that the bill might provide a large incentive to buy foreign-built ships in the near future (U.S. Congress, House, 1980, Hearing 96-23). The agency also recommended that the language of the bill be clarified in its intent to allow CCFs for U.S. citizens who own foreign-flag vessels (U.S. Congress, House, 1980, Hearing 96-23). MarAd concluded by saying that the proposal had many advantages from a merchant marine point of view, but they would have to defer to the Department of the Treasury with respect to its national tax policy implications (U.S. Congress, House, 1980, Hearing 96-23). The Department of
the Treasury was opposed to expansion of the CCF (U.S. Congress, House, 1980, Hearing 96-26). No significant action was taken on HR 4769.

A bill, HR 4360, to develop underutilized species by training U.S. fishermen aboard foreign vessels in the U.S. fishing zone was introduced in 1979. The bill provided for additional foreign vessels to be allowed to fish in the zone as training vessels (U.S. Congress, House, 1980, Hearing 96-18). The industry opposed the bill saying that the U.S. industry was already developing a fleet and processing capabilities to fish underutilized species and that these training vessels were not in the best interest of U.S. fishermen as the purpose of the MFCMA was to give U.S. fishermen and processors an exclusive right to fishery resources in the fisheries zone (U.S. Congress, House, 1980, Hearing 96-18). Some industry representatives said all that was needed to expedite the utilization of these species was the extension of the CCF Program to shoreside fishery facilities and expansion and restatement of the Saltonstall-Kennedy Program (U.S. Congress, House, 1980, Hearing 96-18). The bill did not pass Congress.

Administration

In May 1979, a draft of NMFS' Fisheries Development Program included a provision to extend use of the CCF for shoreside facilities (United States General Accounting Office, 1980). The provision, however, was deleted from the
final draft at the request of the OMB. In December, NMFS said it was not prepared to support the inclusion of fishery shoreside facilities in the CCF Program and proposed a review of the issue with the Department of the Treasury (United States General Accounting Office, 1980).

Judiciary

In 1979, the U.S. Court of Claims made another landmark decision with regard to the CCF. In Oglebay Norton Co. v. U.S., the Court once more upheld that the fact that the cost of a qualified vessel was financed in whole or in part by previously deducted or excluded funds withdrawn from a CCF had no effect on the investment credit to be allowed (U.S. Congress, Senate, 1984, Hearing 98-836).

Action Taken in 1980

Legislature, Ninety-Sixth Congress, Second Session

In late March, HR 6899 was introduced. This bill, another version of HR 4769 which was introduced in 1979, originally contained language to:

1. extend full CCF privileges by allowing U.S. shareholders of foreign corporations to establish CCFs;
2. allow income from ships that are constructed abroad and documented under foreign law to be deposited in a CCF;
3. allow income from ships operating in international (cross) trades to be deposited in a CCF; and

The bill also amended the Internal Revenue Code regarding the applicable percentage of basis used in the case of investment tax credits (U.S. Library of Congress, 1981, 96-2, Part 1). The bill was reviewed by four committees of the House and respectively reported to the House four times, however no further action was taken (U.S. Library of Congress, 1981, 96-2, Part 2). The CCF provisions of the bill were reported by the Committee on Ways and Means who amended the bill by deleting all the provisions to amend the CCF (U.S. Congress, House, 1980, Report 96-935, Part IV).

HR 7039 was introduced for the purpose of promoting U.S. fisheries (U.S. Library of Congress, 1981, 96-2, Part 1). The bill originally contained language to extend CCF provisions to fisheries facilities (U.S. Library of Congress, 1981, 96-2, Part 1). The bill passed the House, however, the CCF provisions were written out (U.S. Congress, House, 1980, Report 96-1138, Part I). The bill was tabled and S 1656 was passed in lieu (U.S. Library of Congress, 1981, 96-2, Part 2).

On August 3, 1980, S 2492, the Ocean Thermal Energy Conversion Act of 1980 was passed as PL 96-320 (U.S. Library of Congress, 1981, 96-2, Part 1). In order to help finance plantships and service vessels, the Act designated them as

In July, August, and September of 1980 the House Committee on Ways and Means held hearings on the advisability of a tax reduction effective for 1981 (U.S. Congress, House, 1980, Hearing 96-135). On the subject of accelerated depreciation, the Treasury Department stated that the shipping industry did not need rapid depreciation nor the investment tax credit because they could achieve zero taxation through use of the CCF (U.S. Congress, House, 1980, Hearing 96-135). Shipping industry representatives argued for a better form of depreciation, saying that not all vessels use the CCF (U.S. Congress, House, 1980, Hearing 96-135). The industry representatives further argued that carriers that use the CCF are restricted in that the new vessel must be built in the U.S. and current government subsidy programs were not strong enough to make this competitive (U.S. Congress, House, 1980, Hearing 96-135).

Advisory Entities and Reports

In a 1980 report on developing markets for fisheries not traditionally harvested by the United States, the GAO recommended that the Program be revised to allow acquisition
of used vessels to convert them to harvest nontraditional species (United States General Accounting Office, 1980). It also recommended allowing use of the CCF to processors of nontraditional species (United States General Accounting Office, 1980).

**Action Taken in 1981**

Legislature, Ninety-Seventh Congress, First Session

A bill (S 1017) to authorize appropriations for fiscal year 1982 for certain maritime programs included a provision to allow the use of CCFs for retrofit or construction work in overseas shipyards if the Secretary of Commerce determines that matching construction differential subsidy (CDS) funds are not available for the work to be performed in U.S. shipyards (U.S. Congress, Senate, 1981, Report 97-64). The reason for allowing this was due to the cuts in the CDS Program (U.S. Congress, Senate, 1981, Report 97-64). It was argued that without CDS, the CCF is not a great enough incentive in itself to encourage U.S. construction. The bill was reported to the Senate, but the measure was indefinitely postponed in the Senate in November of 1981 (U.S. Library of Congress, 1983, 97-2, Part 1).

Once again a bill, HR 3668, was introduced to extend CCF privileges to fishery facilities (including port and other support facilities) (U.S. Library of Congress, 1982,
97-1). A hearing was held on the bill in June of 1981 by a subcommittee of the House Merchant Marine and Fisheries Committee (U.S. Congress, House, 1981, Hearing 97-7). The Department of Commerce stated that extension of the CCF to shoreside facilities would be one way of increasing capital formation in the industry (U.S. Congress, House, 1981, Hearing 97-7). However, the Department stated that:

1. it was worried that the extension would set a bad precedent and other industries would wish for the same treatment;
2. investment periods for processing facilities were suitable for commercial loans; and
3. the Administration's proposed accelerated depreciation schedule would stimulate investment in fisheries industries (U.S. Congress, House, 1981, Hearing 97-7).

The Department of Commerce deferred the matter of tax policy to the Treasury Department (U.S. Congress, House, 1981, Hearing 97-7). During the hearing, the point was raised on whether or not to allow fishermen to invest in facilities and for facilities to invest in fishing vessels (U.S. Congress, House, 1981, Hearing 97-7). Witnesses present took several positions on that subject from no crossover to just crossover of fishermen to shoreside facilities to crossover in both directions (U.S. Congress, House, 1981, Hearing 97-7).

Industry representatives were in favor of extension of the CCF Program to fishery facilities because:

1. of the large capital requirements that existed in the fish industry;
2. of the need to improve U.S. processing and marketing capabilities;
3. several new vessels were entering the industry and catches are starting to exceed shoreside handling capacity; and

4. the CCF could only be used by a successful operator as opposed to a loan or other type of subsidy which could be granted to an unsuccessful operator in which the chances of regaining it are slimmer (U.S. Congress, House, 1981, Hearing 97-7).

Industry representatives also brought up the point of being able to use the CCF for operating expenses (U.S. Congress, House, 1981, Hearing 97-7). They claimed this would help keep vessels in the industry during times of high operating expenses and it would also help decrease the tendency for these vessel owners to use it to build another vessel (U.S. Congress, House, 1981, Hearing 97-7). Many industry representatives, however, opposed this saying it would reduce the incentive to expand and would keep inefficient firms in business (U.S. Congress, House, 1981, Hearing 97-7). No action was taken on the bill beyond the hearing.

HR 2821 was introduced for the purpose of amending the Merchant Marine Act of 1936 to include on the list of ships eligible to establish a CCF certain ships involved in international trade (U.S. Library of Congress, 1982, 97-1). The bill also adjusted the amounts to be deposited by specified individuals in such fund and redefined the terms "eligible vessel," "qualified vessel," and "foreign fishing corporation" for purposes of the Act (U.S. Library of Congress, 1982, 97-1). No action was taken on the bill.
Administration

In October of 1981, NMFS passed a rule to allow qualified CCF withdrawals for improvements which would conserve fuel and reduce energy related operating costs (46 FR 54563). Previously, CCF withdrawals could only be made for vessel reconstruction if the improvements were classifiable as a capital expenditure and cost at least $100,000 or 20 percent of the vessel's acquisition cost (whichever is less) (50 CFR 259).

Judiciary

In 1981, the U.S. Tax Court made a landmark decision with regard to the CCF. In Zuanich v. Comm'r, the Court agreed with the IRS by saying that use of the CCF does reduce the basis of a vessel for purposes of determining investment tax credits (U.S. Congress, Senate, 1984, Hearing 98-836). As a result, most disputes of investment tax credit with regard to the CCF were litigated in the U.S. Court of Claims, which held the opposite view (U.S. Congress, Senate, 1984, Hearing 98-836).

Action Taken in 1982

Legislature, Ninety-Seventh Congress, Second Session

The Administration's Fiscal Year 1983 Economic Program contained a minimum tax proposal which included a 15 percent tax on deposits made into the CCF (U.S. Congress, House,
During a Congressional hearing on the Economic Program, shipping industry representatives opposed the tax on the grounds that it undermined the purpose of the CCF, would hurt the ability of U.S.-flag vessels to modernize, and would no longer make it an attractive program to build ships in the U.S. (U.S. Congress, House, 1982, Hearing 97-67). Carriers argued that the minimum tax would put a double burden on ship operators as they can not use depreciation and that the revenues generated by taxing CCFs would be less than 1 percent of the revenues produced by the minimum tax (U.S. Congress, House, 1982, Hearing 97-67).

A bill to authorize appropriations for Fiscal Year 1983 (S 2336) contained language to permit the use of money accumulated in CCFs to be used in the foreign acquisition, construction, and reconstruction of vessels for a specified two year period (U.S. Congress, Senate, 1982, Report 97-408). The rationale for this was that the conditions of U.S. foreign trade operators was such that they would not be able to afford to build in the U.S. anyway, therefore, there would be no loss of business to U.S. shipyards (U.S. Congress, Senate, 1982, Report 97-408). The bill passed both the House and Senate amended (U.S. Library of Congress, 1983, 97-2, Part 1). The Conference Committee struck the CCF provision (U.S. Congress, House, 1982, Report 97-961).
The Conference bill did not make it to a vote to either the House or the Senate before the end of the Congress (U.S. Library of Congress, 1983, 97-2, Part 1).

Advisory Entities and Reports

The National Advisory Committee on Oceans and Atmosphere (NACOA) was developed to advise the President and Congress on proper ocean policy. In its 1982 report on fisheries, NACOA recommended that NMFS should review its programs of direct financial assistance to determine if they can be used more effectively, and to eliminate those for which government intervention is not needed, or where government intervention causes adverse impacts (NACOA, 1982). They were concerned that federal involvement through programs such as the CCF may produce overcapitalization (NACOA, 1982).

Action Taken in 1983

Legislature, Ninety-Eighth Congress, First Session

Early January saw the introduction of S 254, a bill to extend CCF privileges to shoreside fisheries facilities (U.S. Library of Congress, 1984, 98-1, Part 1). The bill included a provision which would allow use of the fund for cross investments between the harvesting and shoreside sectors (U.S. Congress, Senate, 1983, Hearing 98-123). A
hearing was held on May 12, 1983. The Department of Commerce did not feel that extension of the CCF was a good idea for the same reasons mentioned in their 1981 testimony on the same subject (U.S. Congress, Senate, 1983, Hearing 98-123). Additionally, the Department stated that the U.S. fishing fleet was sufficiently modernized and upgraded that they could compete with foreign nations (U.S. Congress, Senate, 1983, Hearing 98-123).

Industry representatives were in favor of the bill for several reasons. They felt the bill would:

1. help replace foreign fleets in U.S. waters with U.S. harvesting and processing companies;
2. help expand into underdeveloped fisheries;
3. help reduce spoilage and increase utilization and meet the growing demand for higher quality products;
4. upgrade industrial fish products and products for human consumption;
5. be a catalyst to investment;
6. make the fishing industry more attractive to outside investors;
7. provide an immediate influx of capital from fishermen with existing CCF accounts; and

The Senate Committee on Commerce, Science, and Transportation reported the bill to the Senate in September of 1983, but no further action was taken on it (U.S. Congress, Senate, 1983, Report 98-243).

The Administration drafted a bill, S 1038, which, among other things, would allow U.S.-flag vessels that were built in other nations to enter into a CCF agreement (U.S. Library
of Congress, 1984, 98-1, Part 1). The Administration supported the measure because it was intended to help promote the expansion and modernization of the U.S.-flag fleet in a period when domestic construction of foreign trade ships appeared precluded (U.S. Congress, Senate, 1983, Hearing 98-107). The shipping industry was in favor of the CCF provisions because the U.S. owners of foreign vessels had a tax advantage over U.S. owners of U.S. vessels and U.S. shipowners had to build foreign to be competitive and wanted to use their CCFs to do so (U.S. Congress, Senate, 1983, Hearing 98-107).

The shipbuilding industry opposed the bill (U.S. Congress, Senate, 1983, Hearing 98-107). The shipbuilders even brought up the notion that they should have CCF privileges extended to them since many foreign yards receive tax breaks (U.S. Congress, Senate, 1983, Hearing 98-107). No further action was taken on the bill.

The Merchant Marine Revitalization Act of 1983, S 1624, contained a section to extend CCF privileges for the purposes of construction, reconstruction, or repair of shipyard facilities in the United States (U.S. Library of Congress, 1984, 98-1, Part 1). The administration opposed S 1624 because of cargo reservation provisions, they did not even bring up the CCF provision (U.S. Congress, Senate, 1984, Hearing 98-567). All the maritime industry representatives were in favor of extension of CCF privileges
to shipyards (U.S. Congress, Senate, 1984, Hearing 98-567). No further action was taken on the bill, probably because many people opposed other provisions of the bill which had an impact on international trade.

Once again a bill, S 1332, was introduced which would allow vessels purchased with CCF monies to have full investment credit instead of only half of the amount withdrawn from the CCF to build the vessel (U.S. Library of Congress, 1984, 98-1, Part 1). In a 1984 Congressional hearing, industry representatives said they were in favor of the bill, however, no further action was taken on it (U.S. Congress, Senate, 1984, Hearing 98-836).

The Maritime Redevelopment Bank Act, HR 3399, was introduced to establish a government corporation named the Maritime Redevelopment Bank of the United States. The Bank would be an independent agency under the policy guidance of the Department of Transportation with the purpose of promoting private investment in maritime enterprise (U.S. Library of Congress, 1984, 98-1, Part 2). One small part of the Act prohibited use of the CCF for foreign building. Even though the CCF could not be used to build foreign, certain efforts were trying to allow this (U.S. Congress, House, 1985, Hearing 98-57). In a 1984 hearing, shipping industry representatives said they would prefer use of the CCF for foreign building (U.S. Congress, House, 1985, Hearing 98-57). No further action was taken on the bill.
Two tax bills, S 1421 and HR 3271, were introduced that contained sections to repeal the tax exemption for deposits into, and withdrawals from, a CCF (U.S. Library of Congress, 1984, 98-1, Part 2). No action was taken on either bill.

Advisory Entities and Reports

In its 1983 report on marine transportation, NACOA recommended that the CCF program be maintained and be applicable only to vessels of U.S. registry constructed in U.S. shipyards (NACOA, 1983).

Action Taken in 1984

Legislature, Ninety-Eighth Congress, Second Session

In February of 1984, the House held a hearing on MarAd authorization for fiscal year 1985 and oversight (U.S. Congress, House, 1984, Hearing 98-41). During this oversight hearing, the Shipbuilders Council of America suggested an initiative to extend the CCF to shipyards by allowing 15 percent of Capital Construction Funds expended in the purchase of vessels to be excluded from the taxable income of the shipyard if invested in capital assets to be used for ship construction (U.S. Congress, House, 1984, Hearing 98-41). In this manner, the capital would be regarded as equity investment and rules governing cost of
capital as a recoverable cost under government contracts would not be affected (U.S. Congress, House, 1984, Hearing 98-41).

The Administration said that they had not developed an opinion on the proposal, but it did represent a departure from the tax deferral concept that was embodied in the present CCF concept and it was under review (U.S. Congress, House, 1984, Hearing 98-41). The Shipbuilders Council of America also suggested extending CCF privileges for vessels engaged in the deepwater Jones Act trades (U.S. Congress, House, 1984, Hearing 98-41). A proposal was made by the Maritime Institute for Research and Industrial Development to allow American companies having CCFs to be authorized to use those funds for building replacement vessels regardless of the place they are built (U.S. Congress, House, 1984, Hearing 98-41).

Six tax bills, S 2600, S 2948, S 3050, HR 5533, HR 6165, and HR 6384, were introduced with provisions to repeal the tax exemption for deposits into, and withdrawals from, a CCF (U.S. Library of Congress, 1985, 98-2, Part 1 and U.S. Library of Congress, 1985, 98-2, Part 2). No action was taken on any of these bills.
Legislature, Ninety-Ninth Congress, First Session

In 1985, the Administration introduced a plan to Congress for comprehensive tax reform (U.S. Congress, House, 1986, Hearing 99-46). Among other things affecting the U.S. maritime industries, the plan called for the repeal of the CCF Program and the investment tax credit program (U.S. Congress, House, 1986, Hearing 99-46). The House Committee on Ways and Means held a series of hearings on the proposed program in May, June, and July.

During these hearings, members of the House Merchant Marine and Fisheries Committee opposed the repeals, especially with regard to the CCF (U.S. Congress, House, 1986, Hearing 99-46). Members of the House Merchant Marine and Fisheries Committee stated that there were four major reasons for retaining the CCF Program:

1. the CCF facilitates the accumulation of capital;
2. the CCF has fulfilled many of the goals for which it was established by stimulating shipbuilding in U.S. yards;
3. the CCF assures renewal of the commercial fleet which is critical to national defense; and
4. the CCF is the key to providing tax parity with foreign fleets (U.S. Congress, House, 1986, Hearing 99-46).

They also mentioned that while the Treasury would save money now, in the long run revenues would be lost because many of the companies using the Program may not be able to stay in
business (U.S. Congress, House, 1986, Hearing 99-46). In the long run this could be a major cost to the Federal Treasury as a result of loss of jobs, shipbuilding, and suppliers, as well as an impact on national security (U.S. Congress, House, 1986, Hearing 99-46).

Maritime and fishing industry representatives opposed the repeal of the CCF saying:

1. the repeal is not just a matter of tax reform, but of maritime policy as well;
2. the repeal would result in an insignificant revenue gain to the Treasury;
3. the repeal would cause a ripple effect by putting shipyards and related enterprises out of business;
4. the repeal would abrogate outstanding contracts in violation of the Constitution;
5. the CCF is one of the few aid programs left available to the industry; and

Additionally, maritime representatives stated that the Administration gave no good reason for the repeal. The Administration seemed to lump it with the appropriation programs it was going to phase out (U.S. Congress, House, 1986, Hearing 99-46).

In its justification for the repeal of the Program, the Administration said that the national security justification for a subsidized merchant marine is unclear these days (U.S. Congress, House, 1986, Hearing 99-46). The Treasury Department said that the CCF Program originated along with a direct appropriations program and the direct appropriations
program was being cut, so the CCF should also be considered for a cut (U.S. Congress, House, 1986, Hearing 99-46). The Treasury also stated that there were enough U.S. controlled foreign vessels to help with sealift capabilities in time of a military emergency (U.S. Congress, House, 1986, Hearing 99-46). The U.S. Navy responded by saying that domestic vessels account for more than two-thirds of sealift capacity and that foreign-flag ship support had not been supported by fact or agreement (U.S. Congress, House, 1986, Hearing 99-46).

In July of 1985, the House Subcommittee on Merchant Marine of the Merchant Marine and Fisheries Committee held hearings to discuss the impact of the proposed tax reform on the maritime industry and HR 2893. The purposes of HR 2893 were to allow vessels owned by U.S. controlled foreign corporations eligible for use of the CCF and to allow the CCF Program to be used for the acquisition, construction, or reconstruction of vessels used in support of exploration, exploitation, or production of offshore mineral or energy resources (U.S. Congress, House, 1987, Hearing 99-52).

The Treasury Department opposed the bill and mentioned the proposal to repeal the whole Program. It said that repeal of the CCF Program is justified because the current rules for taxation of these funds were a gross departure from generally applicable principles of taxation (U.S. Congress, House, 1987, Hearing 99-52).
Views on HR 2893 were mixed. Some were for the bill saying it would benefit domestic commerce and shipbuilding in the U.S. (U.S. Congress, House, 1987, Hearing 99-52). Others were skeptical that allowing U.S. controlled foreign companies would do anything to increase the number of U.S.-flag vessels and stimulate U.S. shipbuilding activity (U.S. Congress, House, 1987, Hearing 99-52). They maintained that it would still be cheaper to build and operate foreign-flag vessels (U.S. Congress, House, 1987, Hearing 99-52). No significant action was taken on HR 2893 (United States Congress, House, 1986, 99th Congress, 1st Session).

Another bill, HR 33 was introduced to establish the Maritime Redevelopment Bank of the United States (U.S. Congress, House, 1987, Hearing 99-52). With regard to the CCF, the bill allowed an operator leasing a vessel which the bank has guaranteed the payment of charter-hire or residual value under a personal property lease to withdraw funds from an existing CCF in either a lump sum to be applied to the purchase price of the vessel at the termination of the lease, or in installments to be applied to periodic payment to a financial institution (U.S. Congress, House, 1987, Hearing 99-52). The Maritime Redevelopment Bank was allowed to establish a priority lien on any CCF utilized for this purpose (U.S. Congress, House, 1987, Hearing 99-52). No significant action was taken on HR 33 (United States Congress, House, 1986, 99th Congress, 1st Session).
Three bills (S 1522, HR 3164, and HR 3264) were also introduced to amend the CCF to ensure consistent use of funds made available for capital construction of vessels (United States Congress, House, 1986, 99th Congress, 1st Session and United States Congress, Senate, 1986, 99th Congress, 1st Session). No significant action was taken on any of the bills (United States Congress, House, 1986, 99th Congress, 1st Session and United States Congress, Senate, 1986, 99th Congress, 1st Session).

Advisory Entities and Reports

In its 1985 report on shipping, shipbuilding, and sealift, NACOA recommended that operators be allowed to use foreign-built vessels in the U.S. foreign trades and still be eligible for CCF tax deferral and other government programs (NACOA, 1985).

Action Taken in 1986

Legislature, Ninety-Ninth Congress, Second Session

When the Tax Reform Act of 1986 was passed into law it amended the CCF to tax nonqualified withdrawals at the maximum rate possible and require the Secretary of Transportation and Secretary of Commerce to certify that the proper amounts of money are in the CCFs to meet construction requirements (U.S. Congress, House, 1986, Report 99-841).
If excess funds are present, the fundholder has three years to develop appropriate program objectives or treat the excess as a nonqualified withdrawal (U.S. Congress, House, 1986, Report 99-841). The Act also created a new section to the Internal Revenue Code to reflect the provisions of the CCF that have direct tax policy or tax administration effects and imposed a 25 year limit on the amount of time monies can remain in the fund without being withdrawn for qualified purposes (U.S. Congress, House, 1986, Report 99-841). In addition, the investment tax credit program was repealed for most uses (U.S. Congress, House, 1986, Report 99-841).

The Tax Reform Act of 1986 was introduced in 1985 as HR 3838 (U.S. Congress, House, 1985, Report 99-426). Other bills such as HR 3164 had similar provisions but were not acted on (U.S. Congress, House, 1985, Report 99-426). The original language of HR 3838 regarding the CCF remained nearly the same throughout its consideration. The only major amendment was increasing the time limit that monies can be in a CCF from ten to 25 years (U.S. Congress, House, 1985, Report 99-426).

Action Taken in 1987

Advisory Entities and Reports

The Commission on Merchant Marine and Defense was established in 1984 to study and make recommendations to the
President and Congress on matters relating to the merchant marine and its role in defense. In 1987, the Commission recommended that the CCF Program be continued to support commercial ship construction (Commission on Merchant Marine and Defense, 1987).

**Action Taken in 1988**

**Legislature, One Hundredth Congress, Second Session**

In 1988, the Technical and Miscellaneous Revenue Act of 1988 (HR 4333) was passed as PL 100-647. This Act contained some technical amendments regarding tax rates of nonqualified withdrawals (U.S. Congress, House, 1988, Report 100-1104).

**Administration**

In 1988, NMFS issued a rule that required those party to a CCF to submit preliminary deposit and withdrawal information at the close of the calendar year in time to be processed and included in the report required for the Secretary of the Treasury under the Tax Reform Act of 1986 (53 FR 35202). Previously, fundholders had 130 days after the due date of their taxes to report this (53 FR 35202).
Action Taken in 1989

Legislature, One Hundred First Congress, Second Session

In May of 1989, an omnibus maritime bill, the Merchant Marine and Defense Act, (HR 2463) was introduced in the House. The bill contains language to extend CCF privileges to shipyards (Beargie, 1989). Three hearings have been held, but no further action has been taken.

In April of 1989 a bill (HR 2061) was introduced to reauthorize the MFCMA. Hearings were held throughout the year before the House Subcommittee on Fisheries and Wildlife Conservation and the Environment. During one of the first hearings, one witness testified that there was no need for the CCF and that it should be abolished (U.S. Congress, House, 1989, Hearing 101-13). The witness added that those with active accounts should be allowed to use the fund money to upgrade their current vessels (U.S. Congress, House, 1989, Hearing 101-13).

During subsequent hearings, the Subcommittee asked some other witnesses if they thought the Program contributed to overcapitalization (U.S. Congress, House, 1989, Hearing 101-37). One of the witnesses said the CCF is contradictory to concerns about overcapitalization (U.S. Congress, House, 1989, Hearing 101-37). Another said that removing the aspect of adding new vessels was advantageous, but there was
value for reconstruction of vessels already in the industry to make them safer (U.S. Congress, House, 1989, Hearing 101-37).

In September, the Subcommittee added several amendments to the bill during markup. Among these amendments was one to repeal use of the CCF for fishing vessels (U.S. Congress, House, 1989, Report 101-393). During the full Committee markup, however, the provision to repeal the CCF for use in fisheries was deleted (U.S. Congress, House, 1989, Report 101-393). Concomitantly, another amendment was added to expand the use of the CCF to allow vessel owners to use the Program to purchase equipment or modify qualified vessels to comply with requirements of the Commercial Fishing Industry Vessel Safety Act of 1988; federal environmental protection laws; and laws and regulations including those relating to fishing vessel safety and seafood quality (U.S. Congress, House, 1989, Report 101-393).

Advisory Entities and Reports

In the Commission on Merchant Marine and Defense's 1989 report, it once more supported the need to continue the CCF Program. The report also recommended allowing use of CCF monies for general ship repairs in excess of $1,000,000 and extending use of the CCF to shipyards (Commission on Merchant Marine and Defense, 1989). The report also
recommended restoring the investment tax credit to the same levels that were in effect before the Tax Reform Act of 1986 (Commission on Merchant Marine and Defense, 1989).

**Action Taken in 1990**

Legislature, One Hundred First Congress, Second Session

The full Committee markup of HR 2061 was passed by the House on February 6, 1990 and moved to the Senate where it awaits action (U.S. Congress, House, 1989).

**Summary**

Prior to 1970, fishing vessel owners were allowed to defer capital gains through the Construction Reserve Fund in section 511 of the Merchant Marine Act of 1936. This Fund, however, was not attractive since, among other things, taxes could not be deferred on earnings and money in the fund had to be used within two years. While bills had been introduced to extend this tax deferred program to include deferrals on earnings, little action was taken on the initiatives.

In 1969, the President introduced a program to Congress which was aimed at increasing shipbuilding activity and modernizing the U.S. merchant marine foreign trade fleet. The program included many plans and subsidies for the shipbuilding and ship operating industries. One small
portion of the program was to extend the tax deferment provisions to all vessels operating in the U.S. foreign trade. Later in 1969 HR 15424 was introduced to the House. This bill was reflective of the Administration's program.

After several Congressional hearings in 1969 and 1970, this bill was amended to the extent that the tax deferral program of the 1936 Act was totally rewritten and renamed the Capital Construction Fund, which became the major focus of the bill. The CCF extended deferrals, not only to all vessels operating in the U.S. foreign trades, but Great Lakes trades, noncontiguous domestic trades, and the fisheries of the United States as well. This bill became law in late 1970 and was known as the Merchant Marine Act of 1970.

The legislative history of the CCF made its intents clear:

1. Contribute to the development of a long range shipbuilding program;
2. Ease the competitive disadvantage of U.S.-flag vessels in foreign trades;
3. Build vessels in the noncontiguous domestic trades at a cheaper rate, thereby decreasing freight costs to these areas;
4. Modernize, construct, and reconstruct, vessels to improve a dwindling Great Lakes fleet; and
5. Modernize and expand the U.S. fishing fleet.

Several attempts were made to extend and repeal privileges allowed under the CCF (Table 7). Only a few of these have been successful. Extending use of the CCF to vessels operating between points within noncontiguous states.
<table>
<thead>
<tr>
<th>Congress/Bill #</th>
<th>Purpose</th>
<th>Fate</th>
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<tbody>
<tr>
<td>91st</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR 15424</td>
<td>Created CCF</td>
<td>PL 91-469</td>
</tr>
<tr>
<td>HR 15425</td>
<td>Extended CRF to all vessels in U.S. foreign trade</td>
<td>Hearings</td>
</tr>
<tr>
<td>HR 15640</td>
<td>Extended CRF to all vessels in U.S. foreign trade</td>
<td>Hearings</td>
</tr>
<tr>
<td>S 3287</td>
<td>Extended CRF to all vessels in U.S. foreign trade</td>
<td>Hearings</td>
</tr>
<tr>
<td>93rd</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR 7395</td>
<td>Extended use of CCP to vessels operating between points within noncontiguous states and territories</td>
<td>S 902 passed in lieu</td>
</tr>
<tr>
<td>S 902</td>
<td>Extended use of CCP to vessels operating between points within noncontiguous states and territories</td>
<td>PL 93-116</td>
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<tr>
<td>94th</td>
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<tr>
<td>S 1542</td>
<td>Authorized investment tax credit for CCP withdrawals</td>
<td>CCP provision marked out</td>
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<td>HR 10551</td>
<td>Authorized investment tax credit for CCP withdrawals</td>
<td>No action</td>
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<tr>
<td>HR 10612</td>
<td>Authorized half investment tax credit for CCP withdrawals; decreased size of eligible vessel to 2 net tons</td>
<td>PL 94-455</td>
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<tr>
<td>NMFSRULE</td>
<td>Extended use of CCP to vessels carrying charter fishing parties</td>
<td>Implemented</td>
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<tr>
<td>95th</td>
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<tr>
<td>HR 11158</td>
<td>Extended use of CCP to fishery facilities</td>
<td>No action</td>
</tr>
<tr>
<td>S 2889</td>
<td>Extended use of CCP to fishery facilities</td>
<td>No action</td>
</tr>
<tr>
<td>HR 12959</td>
<td>Extended use of CCP to build vessels for domestic trades; allowed U.S. owners of foreign vessels to use CCP to build U.S.-flag vessels</td>
<td>Reported by House</td>
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<tr>
<td>S 3378</td>
<td>Extended use of CCP to build vessels for domestic trades</td>
<td>No action</td>
</tr>
<tr>
<td>HR 12186</td>
<td>Disallowed exclusions from gross income for amounts used in shipping industry construction</td>
<td>No action</td>
</tr>
<tr>
<td>HR 12323</td>
<td>Disallowed exclusions from gross income for amounts used in shipping industry construction</td>
<td>No action</td>
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<tr>
<td>HR 12801</td>
<td>Disallowed exclusions from gross income for amounts used in shipping industry construction</td>
<td>No action</td>
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<tr>
<td>HR 14257</td>
<td>Disallowed exclusions from gross income for amounts used in shipping industry construction</td>
<td>No action</td>
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### TABLE 7
(Continued)

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<tr>
<th>96th</th>
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<tr>
<td><strong>HR 2330</strong> Extended use of CCF to fishery facilities</td>
<td><strong>S 1017</strong> Extended use of CCF for retrofit or construction work in overseas shipyards if CDS is not available</td>
<td><strong>S 254</strong> Extended use of CCF to fishery facilities</td>
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<td><strong>HR 5570</strong> Extended use of CCF to fishery facilities</td>
<td><strong>HR 3668</strong> Extended use of CCF to fishery facilities</td>
<td><strong>S 1038</strong> Extended use of CCF to foreign built U.S. flag vessels</td>
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<td><strong>S 1656</strong> Extended use of CCF to fishery facilities</td>
<td><strong>HR 2821</strong> Extended use of CCF to certain vessels in cross trades</td>
<td><strong>S 1624</strong> Extended use of CCF to shipyards</td>
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<td><strong>S 197</strong> Extended use of CCF to build vessels for domestic trades</td>
<td><strong>S 2336</strong> Extended use of CCF to build foreign vessels for a 2 year period</td>
<td><strong>S 1332</strong> Authorized full investment tax credit for CCF withdrawals</td>
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<tr>
<td><strong>HR 171</strong> Repealed use of CCF by domestic ships</td>
<td><strong>NMFSRULE</strong> Extended qualified withdrawals for fuel and energy saving improvements</td>
<td><strong>S 1421</strong> Repealed CCF</td>
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<td><strong>HR 4769</strong> Extended use of CCF to U.S. citizens who owned foreign-flag vessels and foreign-built U.S.-flag vessels; extended use of CCF to build vessels for domestic and cross trades; increased investment tax credit for CCF withdrawals</td>
<td><strong>HR 3271</strong> Repealed CCF</td>
<td><strong>HR 3271</strong> Repealed CCF</td>
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<td><strong>HR 6899</strong> Extended use of CCF to U.S. citizens who owned foreign-flag vessels and foreign-built U.S.-flag vessels; extended use of CCF to to build vessels for domestic and cross trades; increased investment tax credit for CCF withdrawals</td>
<td><strong>S 2492</strong> Extended use of CCF to OTEC support ships and plantships</td>
<td><strong>S 2600</strong> Repealed CCF</td>
</tr>
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<td><strong>HR 7039</strong> Extended use of CCF to fishery facilities</td>
<td><strong>S 2492</strong> Extended use of CCF to OTEC support ships and plantships</td>
<td><strong>S 2600</strong> Repealed CCF</td>
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<td><strong>S 2492</strong> Extended use of CCF to OTEC support ships and plantships</td>
<td><strong>NMFSRULE</strong> Extended qualified withdrawals for fuel and energy saving improvements</td>
<td><strong>S 2600</strong> Repealed CCF</td>
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- **No action**
- **CCF provision marked out**
- **CCF provisions marked out**
- **PL 96-320**
- **Reported to Senate**
- **Heardings**
- **Hearings**
- **Implemented**
TABLE 7  
(Continued)

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<tr>
<td>HR 2893</td>
<td>Extended use of CCP to foreign-flag vessels owned by U.S. controlled foreign corporations; extended use of CCP to build vessels used in oil and energy exploration and exploitation</td>
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<tr>
<td>HR 3838</td>
<td>Repealed investment tax credit</td>
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<td>101st</td>
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<tr>
<td>HR 2463</td>
<td>Extended use of CCP to shipyards</td>
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<tr>
<td>HR 2061</td>
<td>Repealed use of CCP for fishing vessels</td>
</tr>
<tr>
<td>HR 2061</td>
<td>Expands use of CCP to purchase equipment and modify fishing vessels for safety and seafood quality</td>
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<table>
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<td>Passed House holds awaits</td>
</tr>
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<td>Senate action</td>
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and territories was introduced in two bills in the course of one Congress. Its purpose was, however, an amendment to merely clarify vague language from the 1970 amendments.

Three attempts were made in two Congresses to allow investment tax credit for CCF withdrawals. The third attempt finally resulted in allowance of half credit. This provision, however, was attached to a larger bill as a rider. By using this strategy, a relatively smaller, less important, provision can be passed along with a larger bill which has greater support. The minor provisions are adopted since the advocates of the bill do not want to scrap the entire work because of some individual provisions. Three attempts in two different subsequent Congresses were made to get full investment tax credit on CCF withdrawals, but they were to no avail. The whole issue became moot in 1986 when the investment tax credit was repealed in general.

A successful attempt was made to extend use of the CCF to vessels between two and five net tons as well as extend use of the Program to vessels engaged in OTEC operations. Both these provisions, however, were also riders on larger bills.

Two rules issued by NMFS extended use of the CCF. The first one allowed vessels carrying charter fishing parties to use the Program. The second allowed qualified withdrawals for fuel and energy saving improvements.
Most attempts to amend the CCF have not been successful. Eight attempts in four Congresses have been made to extend use of the CCF to fishery facilities; five attempts in two Congresses to extend the Program to build vessels for domestic trades; and four attempts in three Congresses to allow U.S. owners of foreign vessels to use the CCF to build U.S.-flag vessels. Three attempts in two Congresses have been made to each extend use of the Program to foreign-built U.S.-flag vessels; extend use of the Program to build vessels for cross trades; and extend use of the CCF to shipyards. Single attempts have been made to extend the CCF Program for retrofit or construction work in foreign yards if CDS is not available; build foreign vessels for a specified two year period; build vessels for oil and energy exploration and development; and to purchase equipment and modify fishing vessels for safety and seafood quality.

Fourteen attempts have been made in four different Congresses to repeal all or some uses of the CCF. This included an attempt to repeal use of the Program by fishing vessels on at least one occasion.

Regardless of the inclusion of fishing vessels in many programs for the Merchant Marine, the main thrust of the Program was to promote the development of a viable merchant marine. No mention is made to fisheries in the Declaration of Policy of the Merchant Marine Act of 1936. In the
history of the Program, all but a few justifications for and amendments to the Program are geared toward the merchant marine. There is no doubt the Program was designed for the merchant marine and fisheries is merely a footnote. Furthermore, there seems to be no evidence of an intense investigation on the impact of fishing vessels being included in the Merchant Marine Act. Fishing is clearly a different industry than any of the maritime trades as it is directly dependent on a potentially limited, common property, natural resource. It seems as fishing vessels were included in the Program for no concrete reason, other than the activity is conducted from vessels.
CHAPTER IV

THE CONTEMPORARY FISHING VESSEL CAPITAL CONSTRUCTION FUND

Legislation, Regulations, and Agencies

The Financial Assistance Division, National Marine Fisheries Service (NMFS), National Oceanic and Atmospheric Administration (NOAA), U.S. Department of Commerce has administrative responsibility for the CCF Program with respect to vessels operating in the fisheries of the United States. The Division of Capital Construction Funds, Maritime Administration (MarAd), U.S. Department of Transportation has administrative responsibility for the Program with respect to all other vessels. Capital Construction Fund regulations issued by these two agencies are found in 50 CFR 259 and 46 CFR 390, respectively. The Merchant Marine Act of 1936 is the authorizing legislation for both of these regulations.

The Internal Revenue Service (IRS), U.S. Department of Treasury has responsibility for tax matters of the CCF Program. Regulations for tax matters relating to the CCF were issued jointly by the three agencies involved and are found in 26 CFR 3 and are reprinted in 46 CFR 391.
Authorizing legislation for these regulations are the Merchant Marine Act of 1936 and the Internal Revenue Code of 1954.

This Chapter examines the contemporary language of the legislation and regulations governing the Fisheries CCF Program (50 CFR 259 and 26 CFR 3). Application and eligibility requirements are reviewed, deposit procedures and CCF structure are presented, and withdrawal procedures are surveyed.

Eligibility and Application

Before a party (individual, partnership, or corporation) may enter a CCF it must first meet some general eligibility requirements set forth in the Merchant Marine Act and supporting regulations. If the party meets these requirements it obtains an application kit and provides the information requested therein.

Eligibility

In order to establish a CCF, a party must be a U.S. citizen who owns or leases one or more U.S.-built vessels operating in the foreign or domestic trades or fisheries of the U.S. of at least five net tons (two net tons in the case of fishing vessels) that are Coast Guard documented (or state registered in the case of fishing vessels under five net tons) (26 CFR 3.0 (k) (l)). Any vessels not constructed in the U.S., but documented by the Coast Guard or registered...
by a state also qualify. These are known as eligible or Schedule A vessels and are the vessels that contribute earnings to the CCF. Fishing vessels are vessels which are used commercially for catching, transporting, and processing fish; or which are used to carry passengers for charter fishing (NOAA, no date). If the party is a corporation, 75 percent of the stock must be owned by U.S. citizens and its chief executive officer, chairman of the board of directors, and majority of the board must be U.S. citizens (46 USC 802-803).

The party wishing to establish a CCF must also present an acceptable program for the acquisition, construction, or reconstruction of one or more qualified vessels (50 CFR 259.30 (a) (3)). Qualified vessels, also known as Schedule B vessels or Schedule B projects, are vessels which are built in the United States, documented in the United States, and operated in the fisheries of the United States (26 CFR (k) (2)). These are the vessels that are acquired, built, or rebuilt with CCF monies.

Application

When applying for a CCF, the party must first sign an Interim Capital Construction Fund Agreement. This form sets forth the basic deposit and withdrawal procedures as well as procedures for transfer of Interim CCF Agreements to
Permanent CCF Agreements when the regulations are finalized. The applicant must also provide:

1. proof of U.S. citizenship;
2. the first taxable year for which the Interim CCF Agreement is to apply;
3. evidence of ownership or lease;
4. federal income tax returns for two years prior to the year CCF is first applied;
5. list of depositories (i.e. banks brokerage firms, etc. where CCF assets will be deposited);
6. estimated CCF deposits categorized by sale/insurance proceeds, fishing income, and depreciation;
7. Social Security/Employer Identification Number;
8. information on Schedule A vessels that will contribute earnings to the fund; and
9. the specific objectives to be achieved by the accumulation of assets in a CCF (to be incorporated in Schedule B vessels) (50 CFR 259.30 (b)).

Specific information on Schedule A vessels include:

1. the name of vessel;
2. name of owner;
3. percentage of ownership;
4. date acquired;
5. name of lessee (if applicable);
6. date vessel was last documented;
7. date vessel was constructed;
8. city and state where it was constructed;
9. net tonnage;
10. gross tonnage;
11. overall registered length in feet;
12. number of charter passengers (if applicable);
13. type of vessel (catcher, processor, tender/transporter, charter);
14. gear type;
15. fisheries of operation (in order of importance if more than one); and
16. area of operation (50 CFR 259.30 (b)).

Specific Schedule B objectives include:

1. the number of vessels to be built;
2. type of vessel;
3. general characteristics such as net tonnage, fish-carrying capacity, age, length, type of gear, number of passengers carried;
4. cost of projects; date of construction, acquisition, or reconstruction;
5. fishery of operation, area of operation; and
6. amount of indebtedness to be paid for vessels to be constructed, acquired, or reconstructed (all notes, mortgages, and other evidences of the indebtedness must be submitted as soon as is available to prove that all monies withdrawn from the CCF were only used for the purpose of the construction, acquisition or reconstruction of Schedule B vessels) (50 CFR 259.30 (b)).

The application materials must be submitted in duplicate to the regional NMFS Financial Services Division office (50 CFR 259.30 (c)). After the CCF is approved, the party must execute the agreement before its taxes are due for that year (50 CFR 259.30 (c)).

CCF accounts can only be used for CCF transactions; CCF and nonCCF transactions cannot be intermingled; and two or more CCF accounts cannot be pooled without prior consent of NMFS (50 CFR 259.36 (a)). Furthermore, funds on deposit for more than 25 years that are uncommitted must be withdrawn; funds cannot be withdrawn for operating capital or purchase of nonqualified assets unless NMFS approves as an emergency; and funds in CCF cannot be pledged as security for loans (Kueckelhan, 1987). Annual deposit and withdrawal reports are also required (50 CFR 259.35).

Deposit Procedures and Structure of CCF

A party may deposit earnings from one or more Schedule A vessels as determined in the agreement. If a party is a partner or owns a share in a vessel, it may open its own CCF
using its share of the earnings from the vessel. The CCF can be a checking or savings account at any federally insured financial institution (NOAA, no date). If the CCF is large enough, monies may also be deposited into stocks and bonds approved in the agreement. The party decides what portion of its Schedule A vessel's taxable is deposited into the CCF for the tax year. The CCF deferral cannot create a loss to the party's fishing income, but it can reduce income to zero (NOAA, no date).

In order to prevent a party from using the CCF to defer taxes on earnings from sources other than its commercial fishing vessels, there is a ceiling on the amount which may be deposited by a party for each taxable year. This ceiling amount may not exceed the sum of the following subceilings:

1. 100 percent of taxable income from vessel operation;
2. 100 percent of vessel depreciation;
3. 100 percent of the net proceeds from the sale or other disposition of vessels; and
4. 100 percent of the earnings from investment or reinvestment of amounts deposited (26 CFR 3.2 (a) (1)).

If the party owns a share in the Schedule A vessel, it may only deposit that amount from each subceiling which reflects its share of the vessel. In other words, if a party owns 10 percent of a Schedule A vessel, it may only deposit 10 percent of the amount allowable in each of the four subceilings.

If during any year one of the four subceilings is exceeded, the excess funds may be treated as a deposit under
another available subceiling for that taxable year or may be treated as not having been deposited for that taxable year (26 CFR 3.2 (a) (2)). In the case of the latter, the monies may be treated as if the deposit was never made and the party would pay the applicable taxes or the monies may be treated as a deposit into the fund under any subceiling available in the first subsequent taxable year and the party would pay taxes on the amount until the first day of the first subsequent tax year (26 CFR 3.2 (a) (2)).

During each tax year, the party must deposit a minimum amount equal to 2 percent of the total anticipated cost of all Schedule B objectives (50 CFR 259.34 (a)). If that exceeds half of the party's taxable income for that year, the party can deposit 50 percent of its Schedule A taxable income (50 CFR 259.34 (a)). If the Schedule B objectives are not going to be completed more than three years in the future, the 2 percent can be deposited over a three year period. In other words the party may deposit 6 percent of the Schedule B projects over the course of three years. This is allowed because of the highly cyclical nature of fisheries. A vessel can make a large amount of money one year and very little the next.

There is no maximum amount which can be deposited into a CCF except that the amounts cannot exceed the sum of the four subceilings, but, no more deposits are allowed when the amount in the fund equals the total cost of all Schedule B
objectives (50 CFR 259.34 (b)). Deposits are usually only allowed to accumulate for ten years before commencement of any given Schedule B objective (50 CFR 259.34 (c)).

Although a party usually has only one CCF, there are three different bookkeeping accounts within each CCF. These accounts are the capital account, capital gain account, and ordinary income account (26 CFR 3.4). The purpose of these accounts are twofold. First, various types of income are treated differently for tax purposes, thus each account is for a different type of income. Second, each type of income is treated differently when it comes to recapturing taxes that have been deferred.

Deposits into the capital account consist principally of vessel depreciation and the return of capital on the sale or other disposition of CCF agreement vessels. Deposits into this account do not generate a CCF tax deduction since return of capital is not income and depreciation is deducted from income tax whether or not the party has a CCF agreement. A party cannot get another deduction for making a deposit attributable to depreciation.

Deposits into the capital gain account are principally from capital gains resulting from the sale or other disposition of agreement vessels. Deposits result in taxes being deferred on the capital gains from the vessel.

Deposits into the ordinary income account are predominantly from income earned during the given taxable year, interest income from the CCF, and depreciation
recapture from sale of an agreement vessel. These deposits result in an immediate income tax deduction. In general, all deposits into a CCF must be made by the income tax filing date of the party, with extensions.

By deferring taxes on income, funds can be accumulated faster than without using the CCF. This is illustrated in the following examples of an individual fisherman and a corporation (NOAA, no date).

Assume an individual fisherman wants to build a new fishing vessel in five years and wants to start saving for it now. In each of the next five years his taxable income from his present fishing operation is $100,000. The fisherman needs $40,000 a year for living expenses and taxes. Without the CCF Program, five years savings would accumulate as shown in Figure 10, while using the Program, results in a five year accumulation as shown in Figure 10. Use of the CCF Program during those five years will give the individual fisherman an additional $119,772 to pay for his new vessel. Thus, the amount he will need to borrow will be $119,772 less than it would be if he had not used the CCF Program. The fisherman also saves the interest that he would otherwise have had to pay to borrow this amount.

Assume a corporation wants to build a new fishing vessel in five years and decides to set aside $30,000 a year for the downpayment. The yearly taxable fishing income must be $35,300 in order to save the $30,000 per year. Without
FIGURE 10
INDIVIDUAL FISHERMAN'S FIVE-YEAR ACCUMULATION OF SAVINGS WITHOUT AND WITH THE CCF

<table>
<thead>
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<th>ACCUMULATION WITHOUT CCF</th>
<th>ACCUMULATION WITH CCF</th>
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</thead>
<tbody>
<tr>
<td>Annual taxable income</td>
<td>$100,000</td>
<td>$100,000</td>
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<tr>
<td>Living expenses</td>
<td>$(40,000)</td>
<td>$(40,000)</td>
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<tr>
<td>Federal taxes on $100,000</td>
<td>$(28,440)</td>
<td>$(50,900)</td>
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<tr>
<td>Annual savings</td>
<td>$31,560</td>
<td>$49,100</td>
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<td>5 year's savings (5x$31,560)</td>
<td>$157,800</td>
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<tr>
<td>5 year's interest earned</td>
<td>$34,473</td>
<td>$53,631</td>
</tr>
<tr>
<td>5 year's federal taxes on</td>
<td>$(12,914)</td>
<td></td>
</tr>
<tr>
<td>interest earned</td>
<td></td>
<td>Total accumulations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>with CCF</td>
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<tr>
<td>Net interest saved</td>
<td>$21,559</td>
<td>$299,131</td>
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<tr>
<td>Total accumulation</td>
<td>$179,359</td>
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Source: NOAA, no date
Withdrawal Procedures

Funds are deposited in the amounts and for the length of time that a party agreed to when starting the CCF or when the CCF agreement was amended. Taxes are deferred on these funds until they are withdrawn. There are two types of withdrawals, qualified and nonqualified.

Qualified Withdrawals

Qualified withdrawals are those withdrawals made in accordance with the Merchant Marine Act of 1936, the CCF agreement, and the regulations set forth by the Department of Commerce and Internal Revenue Service and which are for the acquisition, construction, or reconstruction of a qualified vessel, or payment of the principal of indebtedness incurred in connection with the acquisition, construction, or reconstruction of such qualified vessel (26 CFR 3.5 (a)). Withdrawals from the CCF can be used to pay for all of the Schedule B project, as a downpayment, or as a payment of the principal of indebtedness.

The CCF can be used to construct new vessels, acquire used vessels, or reconstruct vessels currently in service. However, since the purpose of the CCF is to modernize the
FIGURE 11
CORPORATE FIVE-YEAR ACCUMULATION
OF SAVINGS WITHOUT AND WITH THE CCF

<table>
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<th>Description</th>
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<tr>
<td>Annual taxable income</td>
<td>$35,300</td>
<td>$35,300</td>
</tr>
<tr>
<td>Federal taxes</td>
<td>($5,300)</td>
<td>-0-</td>
</tr>
<tr>
<td>Annual savings</td>
<td>$30,000</td>
<td>$35,300</td>
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<tr>
<td>5 year's savings (5x$30,000)</td>
<td>$150,000</td>
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<tr>
<td>5 year's interest earned</td>
<td>$32,770</td>
<td>$38,558</td>
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<tr>
<td>5 year's federal taxes on interest earned</td>
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</tr>
<tr>
<td>Net interest saved</td>
<td>$22,582</td>
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</tr>
<tr>
<td>Total accumulation</td>
<td>$172,582</td>
<td>$215,058</td>
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</table>

**Source:** NOAA, no date
fleet, there are certain stipulations when using it for the acquisition and reconstruction of vessels. There are also stipulations on operation of vessels receiving federal financial aid in certain conditional fisheries. Tax treatment of withdrawals is also important when making qualified withdrawals for construction, acquisition, or reconstruction of a vessel.

**Acquisition**

Used vessels acquired with CCF money may not be more than five years old at the time of purchase (50 CFR 259.31 (a) (1)). Each used vessel acquired by using the CCF must become a Schedule A vessel (on a one to one basis) with one Schedule B construction or reconstruction (50 CFR 259.31 (a) (1)). Acquisitions are permitted under these circumstances to enable the party to accelerate accomplishment of the additional Schedule B construction or reconstruction (50 CFR 259.31 (a) (1)). However, if accelerated Schedule B projects materially fail, the Secretary of Commerce can, at his or her discretion, disqualify previously qualified withdrawals in this category, seek liquidated damages, and/or terminate the CCF agreement (50 CFR 259.31 (a) (1)).

Vessels that are more than five years old, but not more than 25 years old may be purchased using the CCF if it becomes a Schedule A vessel and (in addition to being a Schedule B vessel for the purpose of its acquisition) becomes a Schedule B vessel for the purpose of that same
vessel's reconstruction (50 CFR 259.31 (a) (2)). This reconstruction should be accomplished within seven years from the date of acquisition (50 CFR 259.31 (a) (2)). If the party fails to complete reconstruction, the same penalties previously mentioned are applicable. Vessels more than 25 years old may be reconstructed using the CCF if the party shows that the reconstruction will result in an efficient and productive vessel with an economically useful life of at least ten years after reconstruction is completed (50 CFR 259.31 (b) (3)).

Reconstruction

In order for a vessel to qualify for reconstruction, the reconstruction must cost at least 100,000 dollars or at least 20 percent of the reconstructed vessel's acquisition cost (in its unreconstructed state) to the party seeking to withdraw CCF monies (50 CFR 259.31 (b)). Reconstruction may include rebuilding, replacing, reconditioning, converting, and/or improving any portion of a vessel (50 CFR 259.31 (b) (1)). A reconstruction project must substantially prolong the useful life of the reconstructed vessel, increase its value, or adapt it to a different commercial use in the fishing trade or industry (50 CFR 259.31 (b) (1)).

All, or the major portion (usually, not less than 80 percent), of a reconstruction project's actual cost must be classifiable as a capital expenditure for IRS purposes (50 CFR 259.31 (b) (2)). The CCF cannot be used to finance
those portions of the reconstruction that are not classifiable as a capital expenditure (50 CFR 259.31 (c)). Usually construction or reconstruction must be completed within eighteen months of their initiation (50 CFR 259.31 (b) (3)).

Any improvement made to a vessel for the purpose of conserving energy, regardless of cost can qualify for a CCF withdrawal (50 CFR 259.31 (d)). The cost of the energy saving improvement, however, must be treated as a capital expenditure for IRS purposes (50 CFR 259.31 (d)).

Conditional fisheries

When NMFS believes there is more harvesting capacity in a given fishery than is consistent with the development, advancement, management, conservation, and protection of the resources in that fishery, it designates it as a conditional fishery (U.S. Department of Commerce, NOAA, no date-a). There are several restrictions for use of federal financial aid for the construction of vessels which would increase the harvest capacity in a conditional fishery (50 CFR 251). If plans to build a vessel or pay the mortgage on a vessel for use in a conditional fishery were planned in a CCF agreement before the fishery was adopted as conditional, the party to the CCF can use the Program to finish that Schedule B project (50 CFR 259.32). However, these projects must be started within six months of the adoption of the conditional fishery and completed within twenty-four months from the
date of the adoption of the commercial fishery (50 CFR 259.32 (d)). If the aforementioned conditions are not adhered to consent to withdrawal will be revoked.

The CCF can also be used to construct vessels for conditional fisheries if the Schedule B objectives will not significantly increase harvesting capacity in the fishery (50 CFR 259.32 (e)). In order to use the CCF to construct a vessel for a conditional fishery, the party must permanently remove from the fishery a vessel of similar harvesting capacity, which has operated substantially in the fishery for the previous eighteen months (50 CFR 259.32 (e) (1)). Failure to remove the vessel within one year after the new vessel begins operation in the fishery could subject all withdrawals to be treated as nonqualified and may be cause for termination of the CCF (50 CFR 259.32 (e) (1)).

A used vessel may be acquired and/or reconstructed with the CCF Program for use in a conditional fishery if that vessel had operated substantially in that conditional fishery during the previous three years (50 CFR 259.32 (e) (2)). The CCF Program may also be used to construct, acquire, and/or reconstruct a vessel in a conditional fishery if it is to replace a vessel which was lost or destroyed (50 CFR 259.32 (e) (3)). The vessel being replaced must have operated in the conditional fishery immediately prior to the loss, the harvesting capacity of the new vessel cannot exceed that of the one being replaced, and the construction, acquisition and/or reconstruction must
be completed within two years after the close of the taxable year in which the loss or destruction occurred (50 CFR 259.32 (e) (3)). Conditional fisheries affecting Rhode Island fishermen include Atlantic groundfish (cod, haddock, and yellowtail flounder), American lobster (Homarus Americanus) in the Gulf of Maine, and surf clams.

**Tax treatment of qualified withdrawals**

For tax purposes, a qualified withdrawal is treated as being made first, out of the capital account; second, out of the capital gain account; and third, out of the ordinary income account (26 CFR 3.6 (b)). Withdrawals will reduce the balance within each particular account on a first-in-first-out basis (26 CFR 3.6 (b)). In the case of withdrawals made from the ordinary income account, the depreciable basis of the Schedule B project is reduced by an amount equal to that withdrawn (26 CFR 3.6 (c) (1)). When withdrawals are made from the capital gain account, the depreciable basis of the Schedule B project is reduced by five-eights of the portion withdrawn in the case of most corporations and one half the portion withdrawn in the case of any other party (26 CFR 3.6 (c) (2)). Withdrawals from the capital account have no effect on the depreciable basis of the Schedule B project. If the withdrawal is used to pay off a mortgage and results in a depreciation basis reduction
in excess of the vessel's basis, then the excess is applied against the basis of other vessels owned by the party (26 CFR 3.6 (c) (3)). If the party owns no other vessels with a depreciable basis, the withdrawal is treated as nonqualified (26 CFR 3.6 (c) (3)).

**Nonqualified Withdrawals**

Any withdrawal that is not a qualified withdrawal is a nonqualified withdrawal (26 CFR 3.7 (b)). Examples of nonqualified withdrawals include amounts remaining in a fund upon termination of the fund, withdrawals made toward completing a Schedule B project where substantial obligations of the agreement are not fulfilled; or if withdrawals are made in excess of the depreciable basis of the Schedule B project and other vessels owned by the party of the CCF (26 CFR 3.7 (b)).

Each qualified and nonqualified withdrawal must be approved by NMFS before being removed from the CCF. Any withdrawal made without NMFS approval may be considered nonqualified and may be deemed a breach of the CCF agreement which could result in its termination (U.S. Department of Commerce, NOAA, no date-b). Withdrawal of funds for nonqualified purposes will only be approved for good cause (NOAA, no date). For example, if a party incurs a net operating loss and needs funds to continue operation, NMFS would approve the nonqualified withdrawal if proof is provided (NOAA, no date).
All nonqualified withdrawals are made first, out of the ordinary income account; second, out of the capital gain account; and third, out of the capital account (26 CFR 3.7 (c)). Nonqualified withdrawals are made on a first-in-first-out basis (26 CFR 3.7 (c)). Nonqualified withdrawals for research, development, and design for improved vessel design, machinery, and equipment, as well as, withdrawals made in excess of the depreciable basis of the Schedule B project and other vessels owned by the party of the CCF, are treated on a last-in-first-out first out basis (26 CFR 3.7 (c)).

Nonqualified withdrawals made out of the ordinary income account are included in the party's gross income as an item of ordinary income for the taxable year in which it is withdrawn (26 CFR 3.7 (d) (1)). Nonqualified withdrawals made out of the capital gain account are included in the party's income as an item of long-term capital gain for the taxable year in which it is withdrawn (26 CFR 3.7 (d) (2)). In addition, all nonqualified withdrawals will be taxed at the maximum rate applicable in the year of withdrawal, they cannot be used to offset net operating losses, and interest is charged on the amount of tax attributable to the withdrawal from the year of deposit to the year of withdrawal (NOAA, no date).
Summary

The Fishing Vessel Capital Construction Fund is a tax deferment program which allows a vessel owner to set aside before tax dollars to expedite the acquisition, construction, or reconstruction of a fishing vessel. The Program is authorized through the Merchant Marine Act of 1936 and administered by NMFS 50 CFR 259. Tax provisions are enabled through 26 CFR 3. Any U.S. citizen (party) who owns or leases a Coast Guard documented or state registered U.S.-built fishing vessel of at least two net tons may enter into a CCF agreement. The party provides proof of citizenship and a description of the vessel(s) that will be contributing earnings to the CCF, Schedule A vessels. The party also submits a program for the acquisition, construction, or reconstruction of one or more qualified vessels, Schedule B vessels.

Earnings from Schedule A vessels are deposited into ordinary savings or checking accounts or if approved, they can be invested in stocks and bonds. The amount that can be deposited is limited to the sum of:

1. 100 percent of the taxable income from vessel operation;
2. 100 percent of vessel depreciation;
3. 100 percent of the net proceeds from the sale or other disposition of a vessel; and
4. 100 percent of the earnings from investment or reinvestment of amounts deposited.

A minimum of 2 percent of the anticipated costs of all Schedule B objectives must be deposited each year. If that
exceeds half the party's taxable income, then half the party's taxable income must be deposited.

Since various types of income are treated differently for taxing and recapturing deferred taxes, there are three different accounts in each CCF for bookkeeping purposes. These accounts are the capital account, the capital gain account, and the ordinary income account.

In general, all deposits into a CCF must be made by the income tax filing date of the party, with extensions. Funds are deposited in the amounts and for the length of time that a party agreed to when starting the CCF or when the CCF agreement was amended. In general, taxes are deferred on these funds until they are withdrawn. Withdrawals can be either qualified or nonqualified.

Qualified withdrawals are those withdrawals made in accordance with the agreement and pertinent laws and regulations which are for the acquisition, construction, or reconstruction of a qualified vessel. Withdrawals from the CCF can be used to pay for all of the Schedule B project, as a downpayment, or as a payment on the principal of indebtedness. Deferred taxes are recovered by the government through a reduction in the depreciable basis of the Schedule B vessel.

When NMFS believes that there is too much harvesting capacity in a fishery, the Service may declare it a conditional fishery. Federal financial aid cannot be used
to acquire, construct or reconstruct a vessel for a conditional fishery unless a vessel of equal harvesting capacity, which has operated in the conditional fishery is permanently removed from operation in that fishery.

Any withdrawal that is not a qualified withdrawal is a nonqualified withdrawal. Examples of nonqualified withdrawals include amounts remaining in a fund upon termination of the fund; withdrawals made toward completing a Schedule B project where substantial obligations of the agreement are not fulfilled; or if withdrawals are made in excess of the depreciable basis of the Schedule B project and other vessels owned by the party of the CCF. In the case of nonqualified withdrawals, taxes are recovered by including withdrawals as taxable income for the year in which they are withdrawn. In addition, all nonqualified withdrawals will be taxed at the maximum rate applicable in the year of withdrawal, they cannot be used to offset net operating losses, and interest is charged on the amount of tax attributable to the withdrawal from the year of deposit to the year of withdrawal.
CHAPTER V

ANALYSIS AND RESULTS

Introduction

Unsubstantiated arguments on the impacts of the Capital Construction Fund Program have split the fishing community. One group believes the program is damaging to the industry and should be abolished. The other claims the program is beneficial or, at the very least, benign, and should be maintained. The major thrust of the argument over the CCF centers around its influences on overcapitalization, incentive to invest in the industry, and the species that CCF vessels target. Thus, it was hypothesized that:

1. The CCF has been used extensively enough to cause overcapitalization.
2. The CCF is an incentive to purchase a new vessel.
3. CCF vessels are targeting underutilized species.

Opponents of the CCF argue that it has been used extensively enough to cause overcapitalization. Ways the CCF could contribute to overcapitalization are by reducing capital costs resulting in vessels remaining in the industry when they would normally exit because of unfavorable economic conditions; forcing vessel owners to remain in the industry when they may prefer to exit; causing increases in
the total number of vessels in a fishery; generating
increases in the total vessel tonnage or size in a fishery;
and causing increases in efficiency of the fleet.
Proponents maintain that vessels in the industry that use
the CCF may still have been built without the Program and
the CCF Program has been a minor factor in capitalization of
the Nation's fishing industry.

Adversaries of the Program also contend that the CCF is
an incentive to purchase a new vessel, thus causing
investment in the industry beyond that which would normally
occur. Advocates argue that the CCF does not increase
fishing effort beyond what would otherwise occur.

Supporters of the Program argue that vessels using the
CCF target underutilized species more than the traditionally
sought species. Opponents say that vessels using the CCF
target fully utilized species.

In order to test these three hypotheses indicators of
capitalization were gathered from vessel owners. These data
are split in two groups, those that have used the CCF
Program (including owners that have used the Program in the
past and no longer use it and owners that actively use the
Program today) and those who have not. The two groups are
compared using a frequency analysis to see if there are
differences between them. The rationale being that if the
CCF contributes to overcapitalization, is an incentive to
purchase new vessels, and Program vessels target
underutilized species, then there should be significant differences in the indicators of capitalization of those that have used the Program and those that have not.

Data were collected through a series of personal interviews with vessel owners in Rhode Island (Appendix A). Contact with some vessel owners was obtained over the telephone through advertisements, Yellow Pages listings, or the Directory, a listing of people involved in the seafood industry. Contact with the majority, however, was made in person during numerous trips to the Point Judith, Newport, Jamestown, and Wickford waterfronts.

Since there are no comprehensive lists of vessel owners from which to draw a random sample, contact was attempted with every vessel owner who advertised, in the Yellow Pages or in the Directory. Contact was also attempted with the owner of every vessel that was at the docks during the time of on-site interviews. Altogether, attempts were made to contact 66 different vessel owners. Four vessel owners could not be reached by phone; four did not respond to phone calls; five vessels were not owner-operated and the owner's phone number or address could not be obtained; crew on three vessels indicated that the owner was not on board and said to stop by later, but were never interviewed; two vessel owners said they were busy and to stop by later, but were never interviewed; one vessel owner refused the interview; and 47 interviews were actually conducted. Assuming an average of one owner per vessel, this represents an
attempted sampling of 30 percent of the vessel owners in Rhode Island and a response rate of 71 percent accounting for a 21.7 percent sample of the vessel owners in the State of Rhode Island.

Of the 47 vessel owners interviewed, 12 have used the Capital Construction Fund Program at one point in their career, while 34 have not. One owner has signed up for the Program, but had not deposited any money. As there were not a minimum of three owners in this situation, this observation was discarded in order to maintain confidentiality of the vessel owner. This observation was not combined with those that have used the Program because actual use of the CCF was not made. It was not included with those who have not used the Program because investment decisions may have been made in anticipation of using the CCF. An analysis of each hypothesis follows.

The Capital Construction Fund's Contribution to Overcapitalization

If the Capital Construction Fund contributes to overcapitalization then the following trends are expected:

1. Vessel owners who have used the CCF will currently own more vessels and will have owned more vessels in the past than those who have not used the Program.
2. Vessel owners who have used the CCF will be involved with partners more than those who have not used the Program. This may be an indication that the vessel is larger and more expensive or primarily a business venture to make money as opposed to a way of life. Partners may also indicate that the vessel is used as an investment tool for outside investors.

3. Vessels owned by those who have used the CCF will be larger than those who have not used the Program.

4. CCF users will have purchased more new vessels than non-users.

5. Those who have used the CCF will own vessels for fewer years than those who have not used the Program.

6. Former vessels of those using the CCF will tend to be sold back into the industry more than those who have not used the CCF.

7. Consecutive vessels of those who have used the CCF will be larger and more efficient than the previous ones more often than those owners who have not used the Program.

8. There will be no difference in other factors that influence investment (number of years owner has been involved in the industry, kinship ties to industry, and reasons for being involved in fishing) between those who have and have not used the Program.

Results of the interviews indicate that 26 percent of the sampled vessel owners in Rhode Island have used the CCF. All of the CCF users have been owner-operators at one time (Table 8). Three, accounting for 25 percent of CCF users, are currently involved in some other aspect of the fishing industry and no longer operate their vessels themselves. Similarly, 97 percent of non-CCF users are owner-operators, while one owner, accounting for only 3 percent, has never been an operator, but has been involved in the industry all his life. This indicates that, at the
TABLE 8

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

VESSEL OWNER'S POSITION IN THE FISHING INDUSTRY

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-operator</td>
<td>9 (75.0)</td>
<td>33 (97.0)</td>
</tr>
<tr>
<td>Former operator, still involved in industry</td>
<td>3 (25.0)</td>
<td>0</td>
</tr>
<tr>
<td>Never operator, but involved in industry</td>
<td>0</td>
<td>1 (3.0)</td>
</tr>
<tr>
<td>Total number of vessel owners</td>
<td>12</td>
<td>34</td>
</tr>
</tbody>
</table>

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present time, investments in most vessels are from within the industry and the CCF does not attract investors from outside the industry.

Most Rhode Island fishing vessel owners, 83.3 percent of those that have used the CCF and 97.1 percent of those that have not, currently possess only one vessel (Table 9). Two vessels were owned by 8.3 percent of those that have used the Program and 2.9 percent of those that have not. Three vessels are owned by 8.3 percent of those that have used the CCF. On the average, those that have used the CCF currently own 1.25 vessels and those that have not used the Program currently own 1.02 vessels. There is not a large difference between the number of vessels currently owned by those that have used the CCF and those that have not. Thus, based on this information, the CCF does not cause investment beyond that which would normally occur.

On the average, vessels are currently owned for 9.3 years by those who have used the Program, while those who have not made use of the Program have owned their current vessels for an average of 5.2 years. If the CCF influenced a faster vessel investment time, a shorter ownership time would be expected by those who have used the Program. This is not the case. The longer length of ownership for CCF users might be attributable to the fact that the vessels may be larger and more expensive thereby requiring a longer investment recovery period or they could be built better,
TABLE 9
COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

NUMBER OF VESSELS CURRENTLY OWNED

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>One vessel</td>
<td>10 (83.3%)</td>
<td>3 (97.1%)</td>
</tr>
<tr>
<td>Two vessels</td>
<td>1 (8.3%)</td>
<td>1 (2.9%)</td>
</tr>
<tr>
<td>Three vessels</td>
<td>1 (8.3%)</td>
<td>0</td>
</tr>
<tr>
<td>Total number of vessel owners</td>
<td>12</td>
<td>34</td>
</tr>
</tbody>
</table>
or a combination of both. If the vessels are larger and more expensive, it could be better for the industry in that one large vessel is built every ten years instead of having smaller vessels built every five years and all of them remaining in the industry. It may also be possible that most of the current owners that are non-users bought used vessels that are the same age as the ones owned by CCF users, but have just owned them for fewer years. It may also indicate that the CCF is not working and it is not being used in a manner to maintain a new, modern fleet.

Most of the current vessels in Rhode Island are owned solely by one investor. There are no major differences between the two groups when it comes to partnership investors (Table 10). Thus vessels that have used the CCF are probably not primarily a business venture to make money, as opposed to a way of life, any more than are vessels that are not built using the CCF.

There are also no major differences in the sizes of the 50 vessels currently owned by the 46 users and non-users who were interviewed (Table 11). Most of the vessels in the Rhode Island fishing industry are between 50 and 99 feet overall for both groups. Thus, it can be concluded that the CCF is not the cause of longer vessels entering the industry. While length is one indicator of catch capacity, future studies of this nature should also compare differences in horsepower, tonnage, sophisticated fish
TABLE 10

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

NUMBER OF VESSELS CURRENTLY OWNED THAT INVOLVE A PARTNER(S)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>No partners</td>
<td>5 (66.7)</td>
<td>25 (73.5)</td>
</tr>
<tr>
<td>One vessel has partner(s)</td>
<td>1 (16.7)</td>
<td>9 (26.5)</td>
</tr>
<tr>
<td>Two vessels have partner(s)</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>Three vessels have partner(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of vessel owners</td>
<td>12</td>
<td>34</td>
</tr>
</tbody>
</table>
TABLE 11

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

LENGTHS OF CURRENTLY OWNED VESSELS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 36 feet overall length</td>
<td>0 (0%)</td>
<td>3 (8.6%)</td>
</tr>
<tr>
<td>36-49 feet overall length</td>
<td>3 (20.0%)</td>
<td>6 (17.1%)</td>
</tr>
<tr>
<td>50-99 feet overall length</td>
<td>12 (80.0%)</td>
<td>26 (74.3%)</td>
</tr>
<tr>
<td>Greater than 99 feet overall length</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total number of currently owned vessels</td>
<td>15</td>
<td>35</td>
</tr>
</tbody>
</table>
finding devices and, in the case of draggers, sizes of nets and type of gear the vessels use. Also, a size category for every twenty feet could be used for the length. The size categories used here are based on those used by RIDEM for licensing fishing vessels.

If the CCF causes more newbuildings than would normally occur, it is expected that there would be significant differences between CCF users and non-users concerning the form in which currently owned vessels were purchased. There are, however, no major differences in the form in which currently owned vessels were purchased (Table 12). Those that have used the CCF purchased 33.3 percent of their current vessels new while 20 percent of non-CCF users purchased their current vessels new. Thus, those who have used the CCF do not initiate much more newbuilding than those who have not used the Program.

The analysis does indicate that there are differences in the number of vessels that were formerly owned by those who have used the Program and those who have not (Table 13). Over half of those not utilizing the Program have never owned a former vessel, whereas only 16.7 percent of CCF users have never owned a former vessel. Slightly over 40 percent of CCF users have formerly owned only one vessel, while almost 18 percent of non-CCF users have formerly owned one vessel. From this information, however, it cannot be determined if the CCF is the reason for owning more vessels in the past.
### TABLE 12

**COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM**

**FORM IN WHICH CURRENTLY OWNED VESSELS WERE PURCHASED**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ (%)</td>
<td>$ (%)</td>
</tr>
<tr>
<td>New</td>
<td>5 (33.3)</td>
<td>7 (20.0)</td>
</tr>
<tr>
<td>Used from fishery it currently operates in</td>
<td>6 (40.0)</td>
<td>20 (57.1)</td>
</tr>
<tr>
<td>Used from fishery other than the one it currently operates in</td>
<td>4 (26.7)</td>
<td>8 (22.9)</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total number of currently owned vessels</td>
<td>15</td>
<td>35</td>
</tr>
</tbody>
</table>
TABLE 13
COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

NUMBER OF VESSELS FORMERLY OWNED

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never owned another vessel</td>
<td>2 (16.7)</td>
<td>20 (58.8)</td>
</tr>
<tr>
<td>Has formerly owned one other vessel</td>
<td>5 (41.7)</td>
<td>6 (17.7)</td>
</tr>
<tr>
<td>Has formerly owned two other vessels</td>
<td>0</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>Has formerly owned three other vessels</td>
<td>1 (8.3)</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>Has formerly owned four other vessels</td>
<td>3 (25.0)</td>
<td>4 (11.8)</td>
</tr>
<tr>
<td>Has formerly owned five other vessels</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Total number of vessel owners</td>
<td>12</td>
<td>34</td>
</tr>
</tbody>
</table>
Of those who have owned former vessels, there are few differences between the two groups regarding partner investments in the vessels (Table 14). There are also little differences between the two groups regarding the forms in which these former vessels were purchased (Table 15). More than half the vessels of both groups were purchased used from inside the fishery, while around 20 percent were purchased used from different fisheries. Thus, those utilizing the CCF did not account for newbuilding with former vessels any more than those who did not utilize the Program.

Fates of the formerly owned vessels of the two groups did not differ greatly either (Table 16). Those that have used the CCF sold 92 percent of their vessels to be used for fishing. Non-CCF users sold 81.3 percent of their vessels to be used for fishing. The fact that vessels were sold in a different fishery could be good, bad, or indifferent depending on what the vessel was fishing for and whether the new and old target species or areas were overcapitalized, underutilized, or at an acceptable level of fishing. One vessel owned by a CCF user was converted to a non-fishing use, thereby taking it out of the industry and one was removed from the industry through damage. Non-users accounted for six vessels that sank, wrecked, burned, or went back to the bank. This indicates that slightly more of the newbuildings of non-CCF users replaced lost vessels rather than adding vessels to the industry than did the
**TABLE 14**

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

NUMBER OF FORMERLY OWNED VESSELS THAT INVOLVED PARTNER(S)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>No former vessels involved partner(s)</td>
<td>7 (70.0)</td>
<td>10 (71.4)</td>
</tr>
<tr>
<td>One former vessel involved partner(s)</td>
<td>1 (10.0)</td>
<td>2 (14.3)</td>
</tr>
<tr>
<td>Two former vessels involved partner(s)</td>
<td>1 (10.0)</td>
<td>1 (7.1)</td>
</tr>
<tr>
<td>Three former vessels involved partner(s)</td>
<td>1 (10.0)</td>
<td>0</td>
</tr>
<tr>
<td>Four former vessels involved partner(s)</td>
<td>0</td>
<td>1 (7.1)</td>
</tr>
</tbody>
</table>

Total number of vessel owners that owned vessels previously: 10 14
### TABLE 15

**Comparison of Owners that Have Used the Capital Construction Fund to Those Who Have Not Used the Program**

**Form in Which Formerly Owned Vessel(s) Was Purchased**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>6 (24.0)</td>
<td>6 (18.8)</td>
</tr>
<tr>
<td>Used from fishery it operated in</td>
<td>14 (56.0)</td>
<td>19 (59.4)</td>
</tr>
<tr>
<td>Used from fishery other than the one it operated in</td>
<td>5 (20.0)</td>
<td>7 (21.9)</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total number of formerly owned vessels</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>Variable</td>
<td>Have Used CCF</td>
<td>Have Not Used CCF</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Sold in fishery it operated in</td>
<td>16 (64.0)</td>
<td>24 (75.0)</td>
</tr>
<tr>
<td>Sold in different fishery than one it operated in</td>
<td>7 (28.0)</td>
<td>2 (6.3)</td>
</tr>
<tr>
<td>Scrapped</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Converted to non-fishing use</td>
<td>1 (4.0)</td>
<td>0</td>
</tr>
<tr>
<td>Sank, wrecked, burned, or went back to bank</td>
<td>1 (4.0)</td>
<td>6 (18.8)</td>
</tr>
<tr>
<td>Total number of formerly owned vessels</td>
<td>25</td>
<td>32</td>
</tr>
</tbody>
</table>
newbuilding by CCF users. This could also indicate that CCF users own safer vessels and/or are more experienced or successful fishermen.

There is not much difference in the average number of years former vessels have been owned. Those who have utilized the CCF owned former vessels for an average of 5.7 years, while those who have not utilized the Program averaged 4.2 years.

The trend in vessel size and efficiency is essentially the same for both, those who have used the CCF and those who have not used the Program (Table 17). Most owners step up to larger vessels and all owners buy consecutive vessels that are more efficient. Vessel owners that utilize the CCF are not the only ones who follow this trend, however, the extent to which vessels are larger and more efficient was not measured. Therefore, it is possible that those that use the CCF follow this trend to a greater degree than those who do not.

On the average, vessel owners that have used the CCF have been involved in some aspect of the fishing industry for about 25 years, with a minimum of nine years and a maximum of fifty years in the industry. Those who have not used the Program have been involved for an average of about 17 years, with a minimum of seven and a maximum of thirty years. This indicates that, on the average, those owners that have utilized the CCF have been in the industry longer than those who have not used the Program. This may be due
TABLE 17
COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM
TRENDS IN OWNERSHIP OF CONSECUTIVE VESSELS REGARDING SIZE AND EFFICIENCY

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consecutive vessels have been larger and more efficient</td>
<td>7 (70.0)</td>
<td>9 (64.3)</td>
</tr>
<tr>
<td>Consecutive vessels increased in size then decreased, each has been more efficient</td>
<td>2 (20.0)</td>
<td>0</td>
</tr>
<tr>
<td>Consecutive vessels stayed about the same size then decreased in size, each has been more efficient</td>
<td>0</td>
<td>1 (7.1)</td>
</tr>
<tr>
<td>Consecutive vessels were larger and more efficient up to last 2 vessels which were the same</td>
<td>0</td>
<td>1 (7.1)</td>
</tr>
<tr>
<td>Consecutive vessels stayed same size, but have been more efficient</td>
<td>0</td>
<td>1 (7.1)</td>
</tr>
<tr>
<td>Consecutive vessels have not been larger and more efficient</td>
<td>0</td>
<td>1 (7.1)</td>
</tr>
<tr>
<td>Consecutive vessels have not been larger, but have been more efficient</td>
<td>1 (10.0)</td>
<td>0</td>
</tr>
<tr>
<td>Consecutive vessels have been smaller, but more efficient</td>
<td>0</td>
<td>1 (7.1)</td>
</tr>
<tr>
<td>Total number of vessel owners that owned vessels previously</td>
<td>10</td>
<td>14</td>
</tr>
</tbody>
</table>

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to longevity or because these owners were involved in the industry when the fish stocks were in better shape and there were fewer vessels and more money in the industry.

One reason for owning a vessel could be family tradition rather than economic incentives. The analysis, however, indicates that there are no differences between users and non-users of the CCF with regard to family background in fishing (Table 18). Approximately one-third of each group has ancestors that worked in the fishing industry. On the average, those who have used the CCF have a longer ancestral fishing line (75 years) than those who have not used the CCF (50 years). This indicates that family tradition is not an influence on use of the CCF.

Vessels owners gave several reasons for being involved in the industry (Table 19). There are no differences between the two groups for being involved in the fishing industry. Of the various responses, nearly 17 percent of those that have used the CCF and about 18 percent of those who have not used the Program were in the fishing industry for financial reward or money. These figures are calculated by totalling the family business; make money/economics/business/financial rewards; used to be a lot of money and interesting work; and used to be good, made a lot of money responses. Thus, while some vessel owners do enter the fishing industry with economics as the major incentive, these seem to account for relatively few and there seem to be no differences between this number for those who have and
TABLE 18

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

FISHING AS A FAMILY TRADITION

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCP</th>
<th>Have Not Used CCP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family has been in fishing</td>
<td>4 (33.0%)</td>
<td>12 (35.3%)</td>
</tr>
<tr>
<td>Family has not been in fishing</td>
<td>8 (66.0%)</td>
<td>22 (64.7%)</td>
</tr>
<tr>
<td>Total number of vessel owners</td>
<td>12</td>
<td>34</td>
</tr>
</tbody>
</table>
TABLE 19
COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

REASONS FOR BEING INVOLVED IN THE INDUSTRY

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like it/like life-style/enjoy it</td>
<td>4 (33.3)</td>
<td>10 (29.4)</td>
</tr>
<tr>
<td>Don't like functions of real world/romance of sea</td>
<td>0</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Family business</td>
<td>0</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>Make money/economics/business/financial rewards</td>
<td>1 (8.3)</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>Kinship/family</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>Used to be a lot of money and interesting work</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>Love water</td>
<td>3 (25.0)</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>Stuck doing it now</td>
<td>0</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Used to enjoy it, don't anymore</td>
<td>1 (8.3)</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Fell into it, worked docks as kid</td>
<td>0</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Sounded good at the time/thought it would be</td>
<td>1 (8.3)</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>something worth doing</td>
<td>0</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>Way of life</td>
<td>0</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Didn't want to work in mill, only thing I know</td>
<td>0</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Atmosphere</td>
<td>0</td>
<td>1 (2.9)</td>
</tr>
<tr>
<td>Used to be good, made a lot of money</td>
<td>0</td>
<td>2 (5.9)</td>
</tr>
<tr>
<td>No response</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
</tbody>
</table>

Total number of vessel owners                               | 12            | 34                |
have not used the CCF. This indicates that the CCF is not used primarily by fishermen whose main intent or sole purpose is to make money.

Summary

The analysis indicates that in Rhode Island, at the present time investments in most vessels are not from outside the industry and the CCF does not attract investors from outside the industry. Instead, vessel ownership tends to be more a way of life than primarily an investment business venture, for both, those who have and have not used the CCF. Those who have used the Program do not initiate much more newbuilding than those who have not used it and there are few differences between the two groups regarding fates of former vessels. Most owners step up to larger, more efficient vessels regardless of whether or not they have used the CCF. Those who have used the Program have owned more vessels in the past than those who have not used the Program, but those that have used the Program have been involved in the industry longer and may have owned more vessels as a result of longevity. There is however, no difference between the two groups in the number of years former vessels have been owned.

Based on this information, vessel owners that have used the CCF do not invest in the industry or behave in a different manner than those who do not utilize the Program.
Therefore, the hypothesis that the Capital Construction Fund has been utilized extensively enough to cause overcapitalization cannot be supported.

The Capital Construction Fund and the Incentive to Purchase a New Vessel

If the CCF is an incentive to purchase a new vessel, it is expected that:

1. Vessel owners utilizing the CCF would have owned fewer vessels if the Program did not exist.
2. Vessel owners utilizing the CCF would use the Program to build several vessels.
3. The majority of the vessel owners utilizing the CCF would not quit using the Program.
4. Vessel owners may be trapped into continuously using the CCF because they cannot afford to pay the taxes they owe as a result of using the Program.

All twelve vessel owners who have used the CCF said that they would still be vessel owners if the CCF Program did not exist. All but one said they would have still owned as many, as large, and as sophisticated vessels as they do now if the CCF Program did not exist. One vessel owner said he would still own as many vessels, but not as expensive. Based on this information the CCF is not an incentive to become a vessel owner or to purchase a new vessel.

Only three formerly owned vessels (5.3 percent of all formerly owned vessels) were built, rebuilt, or acquired with the CCF. Nine currently owned vessels (18 percent of all currently owned vessels) were built, rebuilt, or acquired with the CCF. One owner has built, rebuilt, or
acquired two vessels with the Fund; one has not built, rebuilt, or acquired a vessel with the Program yet; and ten have each used the Program to construct, reconstruct, or acquire one vessel. A very small number of formerly and currently owned vessels were constructed, reconstructed, or acquired with the CCF. In addition, only one vessel owner has used the CCF for more than one vessel. Thus, CCF users do not seem to use the Program to construct multiple vessels.

Twelve formerly owned vessels (21.1 percent of all formerly owned vessels) contributed earnings to a CCF. Three vessel owners have had two former vessels each contribute earnings to a CCF, while six vessel owners have had one former vessel contribute earnings to a CCF. Only three currently owned vessels contribute earnings to a CCF. This accounts for 6 percent of all currently owned vessels. Thus, a small number of former and current vessels are responsible for contributions to the CCF. Some vessels could have contributed earnings to a CCF and also been constructed, reconstructed, or acquired with the Program.

Only four of the twelve vessel owners who have used the CCF are currently utilizing the Program. Six vessel owners quit using the Program because they built the vessel they planned and have no current plans for building another; one quit using the Program because he did not like the administrative aspects of participating in the Program; and one was not making enough money to contribute to the Fund.
This indicates that the expectation of vessel owners being trapped in the industry or not being able to quit using the CCF when they want to is not true.

Most CCF users and non-users feel the Program is, could be, or has been an incentive for vessel owners to remain in the industry (Table 20). The intent of asking vessel owners if they felt the CCF was an incentive to remain or expand in the industry was to determine if they felt the CCF forced owners to stay in the industry because of a large tax debt. Some of the affirmative responses to the question, however, were based on the reasoning that the CCF is a subsidy, and in tough times it gives vessel owners some hopes of getting by. For either reason, the result would be to remain or expand in the industry. In future studies, questions such as this should be more specific. Since many CCF users feel the CCF is an incentive to remain in or expand in the industry, the response may be reflective of their actions. Therefore, there is reason to accept the idea that the CCF is an incentive to remain in or expand in the industry.

Summary

Given that many CCF users feel the Program is an incentive to remain or expand in the industry may indicate that the hypothesis that the CCF is an incentive to purchase a new vessel may be true. However, the analysis indicates that the CCF is not an incentive to become a vessel owner or to purchase a new vessel; CCF users do not use the Program
<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF Used (%)</th>
<th>Have Not Used CCF (% )</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCF is an incentive to remain/expand in industry</td>
<td>7 (58.3)</td>
<td>9 (60.0)</td>
</tr>
<tr>
<td>CCF is not an incentive to remain/expand in industry</td>
<td>2 (16.7)</td>
<td>2 (13.3)</td>
</tr>
<tr>
<td>CCF was incentive to remain/expand in industry, but isn't any more</td>
<td>0</td>
<td>1 (6.7)</td>
</tr>
<tr>
<td>Don't know/can't answer</td>
<td>0</td>
<td>3 (20.0)</td>
</tr>
<tr>
<td>CCF may be incentive to remain/expand in industry for some people/could be</td>
<td>2 (16.7)</td>
<td>0</td>
</tr>
<tr>
<td>No response</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
</tbody>
</table>

Total number of vessel owners familiar with program: 12 | 15
to construct multiple vessels; a small number of former and current vessels are responsible for contributions to the CCF; and that vessel owners are not trapped in the industry because of increased taxes accumulated from use of the CCF. Based on these findings, the hypothesis that the CCF is an incentive to purchase a new vessel cannot be accepted. Thus, given the conflicting results, the hypothesis that the CCF is an incentive to purchase a new vessel cannot be fully supported.

The Capital Construction Fund and Underutilized Species

If vessels that use the Capital Construction Fund primarily target underutilized species the following are expected:

1. Vessel owners that have used the CCF would primarily target underutilized species.
2. Vessel owners that have used the Program would have targeted a different species with the vessels they purchased with the CCF.

More than half of those that have used the CCF drag or trap for multiple species with no concentration (Table 21). This means that they catch underutilized species such as whiting, squid, and mackerel, but they also catch overutilized species such as cod and flounder, depending on the demand for and availability of the species. Only 8.3 percent of those who have used the Program concentrate on underutilized species, while 33.4 percent concentrate on or specifically fish for overutilized species.
TABLE 21
COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

GEAR TYPE AND SPECIES TARGETED

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>(%)</td>
</tr>
<tr>
<td>Drag for multiple species concentrating on flats</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Drag for multiple species no concentration</td>
<td>6</td>
<td>(50.0)</td>
</tr>
<tr>
<td>Pot for lobster</td>
<td>2</td>
<td>(16.7)</td>
</tr>
<tr>
<td>Dredge for ocean quahogs/surf clams</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Dredge for scallops</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Drag for multiple species concentrating on squid</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Drag for multiple species concentrating on skate</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Drag for multiple species concentrating on whiting, squid, butterfish</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Trap for multiple species no concentration</td>
<td>1</td>
<td>(8.3)</td>
</tr>
<tr>
<td>Drag for multiple species concentrating on whiting</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Drag for multiple species concentrating on squid, butterfish, mackerel</td>
<td>1</td>
<td>(8.3)</td>
</tr>
<tr>
<td>Drag for multiple species no concentration and pot for lobster</td>
<td>2</td>
<td>(16.7)</td>
</tr>
<tr>
<td>Total number of vessel owners</td>
<td>12</td>
<td>-</td>
</tr>
</tbody>
</table>
Half of those who have never used the Program drag for multiple species with no concentration, while 11.6 percent concentrate on underutilized species and 38.1 percent concentrate on or specifically fish for overutilized species. Based on these data, vessel owners that have used the CCF do not specifically concentrate on underutilized species, nor do they even concentrate on underutilized species any more than those who have not used the Program. In fact, slightly more of those who have not used the Program target underutilized species than those who have. On the other hand, those that have used the CCF do not target overutilized species any more than those who have not used the Program.

The majority of those who have used the Program do not believe that CCF vessels target underutilized species (Table 22). This indicates that they, more than likely, did not or have not used their CCF vessels to target underutilized species; nor do they feel the obligation of using the CCF for construction or reconstruction of a vessel to target underutilized species.

CCF users also all indicated that the vessels they constructed or reconstructed with the Program targeted the same species as their vessels that were built, rebuilt, or acquired without use of the CCF. This indicates that the Program is not used to move into a different type of fishery
TABLE 22

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

OPINIONS OF THOSE FAMILIAR WITH THE CAPITAL CONSTRUCTION FUND ON WHETHER PROGRAM VESSELS TARGET UNDERUTILIZED SPECIES

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCF vessels target underutilized species</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>CCF vessels do not target underutilized species</td>
<td>9 (75.0)</td>
<td>10 (66.7)</td>
</tr>
<tr>
<td>Don't know/can't answer</td>
<td>1 (8.3)</td>
<td>5 (33.3)</td>
</tr>
<tr>
<td>CCF vessels in Point Judith target underutilized species</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>Total number of vessel owners familiar with program</td>
<td>12</td>
<td>15</td>
</tr>
</tbody>
</table>


nor, given the low number of CCF owners that concentrate on underutilized species, develop vessels to fish underutilized species.

Summary

The findings of this analysis indicate that vessel owners that have used the CCF do not specifically concentrate on underutilized species, nor do they even concentrate on underutilized or overutilized species any more than those who have not used the Program; the majority of those who have used the Program do not believe that CCF vessels target underutilized species; and CCF users do not use the Program to construct, reconstruct, or acquire a vessel to target underutilized species. Based on these results, the hypothesis that vessels using the CCF primarily target underutilized species cannot be supported.

Vessel Owner's Opinions on the Capital Construction Fund

Of the 46 vessel owners, 19 were either not familiar with the CCF or have never heard of it. Since someone who has never heard of or is not familiar with a topic cannot have a well developed opinion, only the responses of those who indicated they were familiar with the Fund are included.

Those vessel owners who have used the CCF have different reasons for participating in the Program (Table 23). Five vessel owners use or have used it for the sole
## TABLE 23
### REASONS FOR USING THE CAPITAL CONSTRUCTION FUND

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>To build new vessel/replace current vessel</td>
<td>1</td>
</tr>
<tr>
<td>Cheapest way to invest money from one vessel to another</td>
<td>1</td>
</tr>
<tr>
<td>To make more money to buy another boat</td>
<td>1</td>
</tr>
<tr>
<td>To invest money in business without paying taxes</td>
<td>1</td>
</tr>
<tr>
<td>The tax structure of the fishing industry</td>
<td>1</td>
</tr>
<tr>
<td>To rebuild/repower/repair vessel</td>
<td>2</td>
</tr>
<tr>
<td>Put money aside without having to pay taxes to build new</td>
<td>3</td>
</tr>
<tr>
<td>vessel (or replace current one)</td>
<td></td>
</tr>
<tr>
<td>To defer taxes/save on taxes</td>
<td>3</td>
</tr>
</tbody>
</table>
purpose of constructing or reconstructing a vessel. Five have used the Program because of the tax structure of the fishing industry or to avoid paying taxes. Three have used it with both purposes in mind. Vessel owners could have given up to three reasons why they used the Program.

Several reasons were also given by those familiar with the Program for not using it (Table 24). Respondents could have given up to three reasons why they have or have not used the CCF. The most popular reason for not using it was that the owner did not need to use the Program. The second most popular reason for not using the Program was that vessel owners did not make enough money to put into the Fund. Nineteen of the vessel owners were either not familiar with the Program or had never heard of it.

Of those vessel owners who were familiar with the Program, many thought it should be maintained as it is (Table 25). Three of the non-users, accounting for 20 percent, thought it should be abolished.

Altogether, five vessel owners thought the CCF should be modified. Two of the respondents to this question were from owners who have never used the Program. One said the Schedules should not be so stringent, the other said that only a certain percentage increase in size and fishing effort should be allowed on consecutive vessels, with a ceiling that should not be exceeded. Two former users maintained that the CCF should be modified. One said the Program should only be open to sole proprietorships who have
<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never had tax problems</td>
<td>1</td>
</tr>
<tr>
<td>Never needed to use it</td>
<td>6</td>
</tr>
<tr>
<td>Not advantageous to defer taxes</td>
<td>1</td>
</tr>
<tr>
<td>Have not made enough money to put in it</td>
<td>5</td>
</tr>
<tr>
<td>Want to invest money in other things</td>
<td>1</td>
</tr>
<tr>
<td>New business, no chance to investigate it yet</td>
<td>2</td>
</tr>
<tr>
<td>Don't believe in it</td>
<td>1</td>
</tr>
<tr>
<td>Sold boats before depreciation was up/used</td>
<td>2</td>
</tr>
<tr>
<td>Vessels have had a low overhead</td>
<td>1</td>
</tr>
<tr>
<td>Extra money went into equipment</td>
<td>1</td>
</tr>
</tbody>
</table>
TABLE 25

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

OPINIONS OF THOSE FAMILIAR WITH THE CAPITAL CONSTRUCTION FUND ON THE FUTURE OF THE PROGRAM

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF (%)</th>
<th>Have Not Used CCF (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain as it is</td>
<td>5 (41.7)</td>
<td>6 (40.0)</td>
</tr>
<tr>
<td>Abolish it</td>
<td>0</td>
<td>3 (20.0)</td>
</tr>
<tr>
<td>Maintain, but modify</td>
<td>3 (25.0)</td>
<td>2 (13.3)</td>
</tr>
<tr>
<td>Indifferent</td>
<td>1 (8.3)</td>
<td>2 (13.3)</td>
</tr>
<tr>
<td>Not familiar enough with program to answer</td>
<td>0</td>
<td>2 (13.3)</td>
</tr>
<tr>
<td>Don't know</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>Mixed feelings</td>
<td>2 (16.7)</td>
<td>0</td>
</tr>
</tbody>
</table>

Total number of vessel owners familiar with program

12                                             15

199
at least five years experience, the other said the CCF should be used for shoreside facilities, upgrade vessels for safety, upgrade vessels for product quality, and help direct fishermen into less developed fisheries (use to change gear, etc.). Only one of the current users of the Program thought it should be modified. He thought it should be modified so users are not forced to build bigger boats.

About one-fourth of each group feels that the CCF does not contribute to overcapitalization (Table 26). Most of the rest feel the Program has, can, or does contribute to overcapitalization in some way.

Vessel owners were asked what the biggest problems are in the industry today and were allowed to provide three responses (Table 27). There were basically no differences in responses between those that have and have not used the Program. About half of each group think overcapitalization and overfishing are the biggest problems in the industry today. Those vessel owners familiar with the CCF were asked if they would consider using the Program in the future (Table 28). There were no major differences in responses between the two groups. Most indicated they would consider using the CCF in the future.

Summary

Given the poor condition of contemporary fish stocks, many feel that government subsidies for fishing, such as the Capital Construction Fund are unwarranted. Unsubstantiated
TABLE 26

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

OPINIONS OF THOSE FAMILIAR WITH THE CAPITAL CONSTRUCTION FUND ON THE PROGRAM'S ROLE IN OVERCAPITALIZATION OF THE FISHING INDUSTRY

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCF contributes to overcapitalization</td>
<td>5 (41.7)</td>
<td>7 (46.7)</td>
</tr>
<tr>
<td>CCF does not contribute to overcapitalization</td>
<td>3 (25.0)</td>
<td>4 (26.7)</td>
</tr>
<tr>
<td>Don't know if CCF contributes to overcapitalization</td>
<td>0</td>
<td>2 (13.3)</td>
</tr>
<tr>
<td>CCF does not contribute to overcapitalization at the present, but could depending on the condition of the fishery</td>
<td>0</td>
<td>1 (6.7)</td>
</tr>
<tr>
<td>CCF does not contribute to overcapitalization if used properly by a sole proprietor</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>CCF could contribute to overcapitalization, different in different situations/possible</td>
<td>2 (16.7)</td>
<td>0</td>
</tr>
<tr>
<td>CCF does contribute to overcapitalization indirectly, but tax laws are the vehicle</td>
<td>0</td>
<td>1 (6.7)</td>
</tr>
<tr>
<td>CCF did contribute to overcapitalization, but does not contribute much anymore</td>
<td>1 (8.3)</td>
<td>0</td>
</tr>
<tr>
<td>Total number of vessel owners familiar with program</td>
<td>12</td>
<td>15</td>
</tr>
</tbody>
</table>
TABLE 27
COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

CONTEMPORARY PROBLEMS IN THE NEW ENGLAND FISHING INDUSTRY

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overcapitalization</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Low fish prices</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Marketing (opening new markets and moving fish in current ones)</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Excessive fishing pressure/too much effort/too much gear</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Lack of industry to organize and deal with problems as a group</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Poor public image of seafood/public ignorance of seafood</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Overfishing</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Government intervention/too many regulations/too much management/too stringent regulations</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Fish stocks down</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Poor management</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Canadian imports</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Too much politics involved</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Pollution</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Banks financing large vessels</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Overcapitalization from government interference in form of tax incentives for non-fishermen</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Lack of communication between fishermen and managers</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Overcapitalization caused by banks and outside investors in the fishing industry</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Non-fishermen investors</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Not government financed like Canada/no government support</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Insurance/liability</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Lack of proper mesh size regulations</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Better information and equipment to use in catching fish</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Council members are from interest groups-too much conflict of interest</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Lack of enforcement</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Banks loaned out money too easily and in a poor manner in the past</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Government policy makers have never been fishing</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Foreigners left grounds in poor shape</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
TABLE 28

COMPARISON OF OWNERS THAT HAVE USED THE CAPITAL CONSTRUCTION FUND TO THOSE WHO HAVE NOT USED THE PROGRAM

RESPONSES AS TO WHETHER OR NOT THOSE FAMILIAR WITH THE CCF WOULD USE THE PROGRAM IN THE FUTURE

<table>
<thead>
<tr>
<th>Variable</th>
<th>Have Used CCF</th>
<th>Have Not Used CCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would use CCF in the future</td>
<td>5 (41.7)</td>
<td>7 (46.7)</td>
</tr>
<tr>
<td>Would not use CCF in the future</td>
<td>3 (25.0)</td>
<td>3 (20.0)</td>
</tr>
<tr>
<td>Not sure/do not know</td>
<td></td>
<td>2 (13.3)</td>
</tr>
<tr>
<td>Will try not to use CCF in future</td>
<td></td>
<td>1 (6.7)</td>
</tr>
<tr>
<td>Depends on the circumstances</td>
<td>1 (8.3)</td>
<td></td>
</tr>
<tr>
<td>Maybe/possibly use CCF in future</td>
<td>1 (8.3)</td>
<td>1 (6.7)</td>
</tr>
<tr>
<td>Would use CCF in future if had to</td>
<td>1 (8.3)</td>
<td>1 (6.7)</td>
</tr>
<tr>
<td>Not likely that CCF will be used in the future</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of vessel owners familiar with Program</td>
<td>12</td>
<td>15</td>
</tr>
</tbody>
</table>
arguments on the impacts of the Capital Construction Fund Program has rifted the fishing industry. One group believes the Program is damaging to the industry and should be abolished. The other claims the Program is beneficial or, at the very least, benign, and should be maintained. The major thrust of the argument over the CCF centers around its influences on overcapitalization, incentive to invest in the industry, and the species that CCF vessels target. Thus, it was hypothesized that:

1. The CCF has been used extensively enough to cause overcapitalization.
2. The CCF is an incentive to purchase a new vessel.
3. CCF vessels are targeting underutilized species.

Indicators of capitalization for owners that have and have not used the Program have been compared. Differences between the two groups regarding indicators of capitalization that might show signs of overcapitalization or increased investment were examined.

An analysis of these indicators of capitalization revealed, at the present time, investments in most vessels are not from outside the industry and the CCF does not attract investors from outside the industry. Instead, vessel ownership tends to be more a way of life than primarily an investment business venture, for both, those who have and have not used the CCF. The CCF is not the cause of longer vessels being in the industry. Those who have used the Program do not initiate much more newbuilding than those who have not used it and there are few
differences between the two groups regarding the fates of former vessels. Most owners step up to larger more efficient vessels regardless of whether or not they have used the CCF. Those who have used the Program have owned more vessels in the past than those who have not used the Program, but those that have used the Program have been involved in the industry longer and may have owned more vessels as a result of longevity. There is however, little difference between the two groups in the number of years former vessels have been owned.

Based on this information, vessel owners that have used the CCF do not invest in the industry or behave in a manner different from those who do not utilize the Program. Therefore, the hypothesis that the Capital Construction Fund has been utilized extensively enough to cause overcapitalization cannot be supported.

The fact that many CCF users feel the Program is an incentive to remain in or expand in the industry may indicate that the hypothesis that the CCF is an incentive to purchase a new vessel may be true. However, the analysis indicates that the CCF is not an incentive to become a vessel owner or to purchase a new vessel; CCF users do not use the Program to construct multiple vessels; a small number of former and current vessels are responsible for contributions to the CCF; and that vessel owners are not trapped in the industry because of increased taxes accumulated from use of the CCF. Based on these findings,
the hypothesis that the CCF is an incentive to purchase a new vessel cannot be accepted. Thus, given the conflicting results, the hypothesis that the CCF is an incentive to purchase a new vessel cannot be fully supported.

The findings of an analysis of species targeted by vessel owners indicates that vessel owners that have used the CCF do not specifically concentrate on underutilized species, nor do they even concentrate on underutilized or overutilized species any more than those who have not used the Program; the majority of those who have used the Program are not even of the opinion that CCF vessels target underutilized species; and CCF users do not utilize the Program to construct, reconstruct, or acquire a vessel to target underutilized species. Based on these results, the hypothesis that vessels using the CCF primarily target underutilized species cannot be supported.
Summary

The Fishing Vessel Capital Construction Fund is a tax deferral program to aid vessel owners in the construction of more modern vessels. Vessel owners who participate in the Program deposit earnings from their current vessels into a CCF for a designated number of years. Income taxes on the money placed in the CCF is deferred as long as it is used to construct, reconstruct, or acquire a fishing vessel. The government recovers the deferred taxes by decreasing the depreciable basis of the vessel that is constructed, reconstructed, or acquired with the Fund. Thus, the CCF acts as an interest free loan of the money that would have been paid in taxes.

New England fisheries are currently plagued by low stocks, too many vessels, and low prices. Concomitantly, these fisheries are also subject to high insurance rates, stringent loan requirements, and increasing federal laws for vessel safety and environmental and seafood quality. Given these conditions, there is great discord regarding the prudence of continuing financial aid programs such as the
CCF for fishing vessel construction. One group believes the Program is damaging to the industry and should be abolished. The other claims the Program is beneficial or, at the very least, benign, and should be maintained.

Arguments to abolish the Program include the following:

1. Most fisheries are fully developed, and in some cases overcapitalized.
2. The financial climate of the industry has significantly changed since the origin of the Program, resulting in availability of private funding and reducing the need for federal assistance.
3. The CCF could contribute to overcapitalization by significantly reducing capital costs resulting in vessels remaining in the industry when they would normally exit because of unfavorable economic conditions; forcing vessel owners to remain in the industry when they may prefer to exit; causing increases in the total number of vessels in a fishery; generating increases in the total vessel tonnage in a fishery; and causing increases in efficiency of the fleet.
4. The CCF is an incentive to invest in the industry beyond that which would normally occur.
5. Vessels using the CCF target fully utilized species.
6. Vessels using the CCF are just as likely to violate conservation regulations as non-CCF vessels.
7. Studies have shown that contractionary tax policy is an effective tool in limiting entry into fisheries, thereby controlling the problem of overcapitalization. Conversely, expansionary tax policy, such as the CCF, must contribute to overcapitalization.
8. The government should not be in the tax shelter business and those funds could be used more effectively in supporting the industry elsewhere, such as in enforcement.
9. Tax deferrals are a poor method of subsidization, which should be accomplished through direct appropriations to control the amount of money being used.
Arguments to maintain the Program include the following:

1. Vessels in the industry that use the CCF may still have been built without the Program.
2. The CCF does not increase fishing effort beyond what would otherwise occur.
3. Vessels using the CCF are less likely to violate environmental regulations since they are more soundly financed.
4. Vessels using the CCF target underutilized species more than conventional stocks.
5. New vessels must be built to develop underutilized species since they require new technologies which are impractical to install on smaller vessels and too expensive to warrant installation on older trawlers.
6. Production Credit Associations of the Farm Credit Administration; major industrial finance companies; large money-center banks; and general, liberal tax laws such as accelerated depreciation and investment tax credit have contributed to overcapitalization more than the CCF.
7. The government is involved in a variety of other programs that provide tax incentives and shelters to other businesses and funds used in the CCF could not be reprogrammed for other fishery uses.
8. The CCF Program has been a minor factor in capitalization of the Nation's fishing industry.
9. Only a small portion of the CCFs resulted in the construction of new vessels.
10. The Conditional Fisheries concept restricts the level of use of the CCF.
11. There is nothing which lists and quantifies fisheries that are overcapitalized versus fisheries where there is merely continuing capitalization.
12. Tax deferrals are only used by successful operators as opposed to a loan or other type of subsidy which could be granted to an unsuccessful operator.
13. Banks are becoming more unwilling to finance fishing vessels.
Since the major thrust of the argument over the CCF centers around its influence on overcapitalization, incentive to invest in the industry, and the species that CCF vessels target, the following were hypothesized:

1. The CCF has been used extensively enough to cause overcapitalization.
2. The CCF is an incentive to purchase a new vessel.
3. CCF vessels are targeting underutilized species.

Data to test the hypotheses were gathered through personal interviews with Rhode Island fishing vessel owners. Indicators of capitalization, such as number and size of vessels owned, origin and fates of vessels, and size of vessels, were compiled. Other factors which may influence investment, such as number of years in the industry and ancestral ties to fishing, were also collected. The responses of those that have used the Program were disaggregated from the responses of those who have not used the Program and a frequency analysis was executed. If the indicators of capitalization of those that have used the Fund showed an inclination of more investment than those who have not used the fund, while other factors that influence investment remained constant, then the three hypotheses could have been accepted. If there were no differences between the groups then the hypotheses could not be accepted.
An overview of the Rhode Island fishing industry reveals that the major species landed by volume in 1989 were *Loligo* squid, whiting, and mackerel. Off the coast of Southern New England, whiting and mackerel are considered to be underutilized, while *Loligo* squid is regarded as being moderately exploited. The leading species by value were Lobster, bay quahogs, and *Loligo* squid. Lobster is considered fully exploited offshore and over exploited inshore.

The majority of Rhode Island vessels drag for finfish using bottom trawls or pot fish for lobster. New offshore vessels suited for Rhode Island waters cost around three-quarters of a million dollars, while new inshore vessels can be purchased for about one-quarter of a million dollars. In general, loans for fishing vessels are difficult to obtain and will likely remain that way throughout the 1990s.

There are currently about 217 fishing vessels over five net tons home-ported in Rhode Island. Approximately 35 other vessels land fish in the State on a seasonal basis. These numbers have remained fairly stable over the past three years.

On a national basis, Rhode Island vessel owners did not account for a large share of CCF use, nor were they very active in the Program as of 1988, the year of the most current data. During this time, they used the Program in a manner less than proportional to the value of the fish they landed.
The history of the CCF reveals that the original intent of including fishing vessels in the Program was to modernize and expand the U.S. fishing fleet. Since then, several attempts have been made to extend and repeal numerous aspects of the Program. Most of the attempts to amend the CCF have not been successful.

Analysis of indicators of capitalization revealed that vessel owners that have used the CCF do not invest in the industry or behave in a manner different from those who have not utilized the Program. Therefore, the hypothesis that the Capital Construction Fund has been utilized extensively enough to cause overcapitalization was not supported.

While the analysis of indicators of capitalization and the manner individuals have used the CCF reveal the Program is not an incentive to remain or expand in the industry, many vessel owners feel otherwise. Even though these responses may be indicative of actual strategic behavior on the part of the CCF users, physical evidence does not lead to this conclusion. Thus, the hypothesis that the CCF is an incentive to remain or expand in the industry cannot be fully supported.

The findings of an analysis of species targeted by vessel owners indicates that vessel owners that have used the CCF do not specifically concentrate on underutilized species, nor do they even concentrate on underutilized or overutilized species any more than those who have not used the Program; the majority of those who have used the Program
are not even of the opinion that CCF vessels target underutilized species; and CCF users do not use the Program to construct, reconstruct, or acquire a vessel to target underutilized species. Based on these results, the hypothesis that vessels using the CCF primarily target underutilized species cannot be supported.

**Conclusions**

The testing of the hypotheses, combined with the discovery of ancillary information allows this study to address many of the pro and con arguments with regard to the State of Rhode Island. The findings of this study would, more than likely, be different in other states and fisheries. This is because, among other things, the CCF may be used more or less extensively in other areas; the conditions of fish stocks may be different; and vessel capacity, management techniques, and investment trends may differ.

Based upon the findings of this study, vessel owners are not forced to remain in the Rhode Island industry when they prefer to exit. This is supported by the fact that eight of the twelve CCF users interviewed no longer used the Program. The majority used the Program to help finance one vessel, then quit using the Program because they had no plans to build another vessel.
The rejection of the hypothesis that the CCF has been used extensively enough to contribute to overcapitalization discounts the arguments that the CCF causes increases in the total number of vessels in a fishery; generates increases in the total vessel tonnage in a fishery; causes increases in efficiency of the fleet; and increases fishing effort beyond what would otherwise occur. During tests on this hypothesis, it was discovered that those that have used the CCF do not currently own more or larger vessels than those who have not used the Program. Those that have used the program have owned more former vessels, but they have also been in the industry longer, so this may be a result of longevity. Furthermore, those that have used the Program are not responsible for much more newbuilding than those who have not used the Program. The measurement of size that was used is length. While length is a measure of catch capacity, other indicators such as tonnage and horsepower should be used in future research. More size categories should also be used in future research.

Analysis of this hypothesis further revealed that most vessel owners step up to larger and more efficient vessels regardless of whether or not they have used the CCF. One of the CCF users did indicate that if he had not used the Program, his present vessel would not be as expensive. Another CCF user felt that the Fund forced users to build a bigger vessel. Therefore, it is possible that CCF users
purchase larger and more efficient vessels on a scale greater than non-users. The extent to which vessel owners step up to larger and more efficient vessels was not addressed. This would entail the gathering of information such as the tonnage, length, and horsepower of each vessel owned; the net size; the types of navigational and fish finding equipment on board; etc. The differences in these variables would have to be determined for each vessel owner, then these differences would have to be compared between those who have and have not used the Program. The extent to which and reasons why vessel owners increase the size and efficiency of consecutive vessels could be an issue worth addressing and modeling in a further study.

All CCF users said they would still own as many vessels as they do now if the CCF Program did not exist. Therefore, vessels in the industry that use the CCF would, more than likely, still have been built without the Program.

The aspect of the CCF reducing capital costs resulting in vessels remaining in the industry when they would normally exit because of unfavorable economic conditions was not specifically addressed for two reasons. First, it is difficult to assess if a vessel owner is in the situation where use of the CCF is the key factor keeping him from being foreclosed or bankrupted. Second, direct questions about vessel financing are not welcomed by most fishermen, so they were not asked in hopes of increasing the response rates.
In reality, this argument is moot. Only vessel owners exit the industry because of foreclosures or bankruptcy. Most of the vessels get sold again and go back to fishing. The boat may be tied to the dock for a while during the process, but this is only temporary removal from the industry. The vessel may also get converted to be used in another fishery, but, this is not necessarily advantageous unless it is being converted to fish for a species which is not overutilized. Thus, the foreclosure process is really not advantageous since it does not result in removal of vessels from the industry and it results in economic losses to the vessel owner, bank, and shoreside facilities.

A study of vessel default rates may be beneficial to understanding actual extent of working catch capacity of the fishing industry. While a fishery may have several vessels operating in it, at any point in time there will be vessels tied up at the dock due to defaults, foreclosures, bankruptcy, etc. Future studies could analyze the rate of vessel defaults, the resulting lost revenues, the length of time they are out of fishing, the resulting loss of fishing effort, changes in target species after boat is resold, and alternative actions of the buyer.

The argument that the CCF is an incentive to invest in the industry beyond that which would normally occur is also false. The analysis indicated that the CCF does not attract
investors from outside the industry; the Program is not an incentive to become a vessel owner or to purchase a new vessel; CCF users do not utilize the Program to construct multiple vessels; and a small number of former and current vessels are responsible for contributions to the CCF.

The types of Schedule B projects were not inquired, therefore, the portion of Schedule B projects that resulted in newbuilding cannot be ascertained. However, judging by the total number of Schedule B projects and use of the Program in Rhode Island compared to the nation, the CCF has been a minor factor in capitalization of the State's fishing industry.

While the financial climate of the industry from the inception of the CCF to the present was not investigated, current loan procedures were examined. Interviews with loan officers at various banks indicate that it is currently difficult to obtain a loan to purchase a vessel. Few banks are currently active in loaning money to purchase fishing vessels. Having a CCF, however, will not necessarily improve the chances of getting a loan. Loan officers indicated that an applicant's chances of getting a loan are not improved by the mere fact of having a CCF. Some did point out that if the applicant has a strong capital base, it is easier to get a loan and the CCF could be used to help build this capital base. Therefore, indirectly the CCF could be partly responsible for the loan approval. Other
sources of private funding and the financial climate of the industry were not investigated, but, the CCF is not directly needed to get a loan.

From an analysis of the history of the CCF it is evident that tax deferrals are only used by successful operators as opposed to a loan or other type of subsidy which could be granted to an unsuccessful operator (U.S. Congress, House, 1970, Hearing 91-17; U.S. Congress, House, 1981, Hearing 97-7). This is further supported by the second most popular reason given in interviews for not using the Program – not making enough money to put into Fund. Since many are not making the money to use the CCF, this supports the rejection of the hypothesis that the CCF is being used extensively enough to contribute to overcapitalization. On the other hand, this also means the Program may not be doing what it is supposed to do – expand and modernize the fleet.

Those who have used the CCF Program do not specifically target underutilized species, nor do they necessarily target underutilized or overutilized species any more than those who have not used the Program. Thus, the CCF is not a factor regarding the species a vessel targets.

The Conditional Fisheries concept restricts the level of use of the CCF in theory, but, there are no regulations written for enforcement. The concept may work for second
generation vessel owners (the people who buy the second hand vessel that must be operated in a fishery that is not conditional), but there is no enforcement to make sure they continue to stay out of the conditional fishery, or that they sell it to third generation owners who agree to keep it out of conditional fisheries. To comply with the conditional fisheries aspect of using the Program, the CCF user merely needs a letter from the person purchasing the old vessel saying it will not be operated or sold for operation in a conditional fishery. The only enforcement of this occurs when a subsequent owner of the vessel wishes to use one of the financial aid programs. A vessel is considered to be in a conditional fishery if more than 50 percent of its annual landings consist of that species. The multi-species nature of the New England fisheries also exacerbates this problem as many conditional and non-conditional species can be caught in the same tow.

Since the CCF is a tax deferral program, money cannot be diverted into other uses for fisheries. Thus, if the Program were discontinued, the money would go back to the General Treasury, not into other aspects of fisheries.

Two additional issues, not found in the literature were raised by the study. First, it seems that many vessel owners treat capital assets in a manner similar to other businesses. When a capital item such as a truck, ship, or machinery is fully depreciated, the company replaces it with a new one to take advantage of reducing the company's taxes.
through depreciation. These items can be scrapped or resold for operation. In the case of capital equipment such as a truck or merchant vessel, resale means more competition in the industry. These industries, however, do not directly impact a renewable resource.

Fishing vessels, however, have little scrap value and a useful life longer than that set for depreciation. Consequently, most vessels get sold back into the industry when the new vessel is purchased. If owners newbuild a large portion of the replacement vessels, this process in itself could contribute to overcapitalization.

Second, vessel owner's reasons for using the CCF; the large accumulation of money in Connecticut CCFs; and general comments of fishermen (Appendix B) lead to the conclusion that the CCF may be used by some as a tax shelter. This could be a result of poorly designed CCF Program, poor application of tax laws to the fishing industry, or a combination of both. Further studies could be conducted on the economic benefits and costs of using the CCF, as well as impacts of tax law on investment in fishing.

Based on this study, the CCF does not contribute to overcapitalization, nor is it an incentive to invest in the industry beyond what would normally occur. Thus, the CCF should not be eliminated on these grounds. On the other hand, it was also found that the CCF has been a minor factor in the capitalization of the fishing industry. The purpose of extending use of the CCF to the fishing industry was to
modernize and expand the U.S. fishing fleet. Therefore, the Program has not accomplished the purposes for which it was developed. There is also evidence suggesting some vessel owners use the Program primarily as a tax shelter. Under these circumstances, the Program should be eliminated because of failure to achieve its goals; the goals of the Program should be changed; or the Program should be restructured to allow the goals to be achieved.

It should be noted, however, that varying circumstances in other fisheries may lead to different results. Because of the diversity of the numerous fisheries of the United States, programs such as the CCF should be best dealt with at a regional or state level, rather than a national level. The Program could very well be causing overcapitalization in one fishery, have no effect on another, and be modernizing an underutilized species in a third.

Given this rationale, the best approach to dealing with the Capital Construction Fund Program would be through oversight of NMFS' implementation of the Program for various fisheries and regions. Instead of abolishing the whole Program, it could be further restricted or even suspended in some fisheries or promoted in others. Of course this type of oversight/management could result in more costs than the Program is worth.

The bill currently before Congress to extend use of the CCF for vessel safety and environmental and seafood quality can theoretically alleviate the potential of
overcapitalization, while at the same time redesign the structure of the language to help achieve the goals of the Program. This amendment could reduce overcapitalization by providing more alternatives to the vessel owner who has a significant amount of money in his CCF. The bill would allow use of CCF monies to improve current vessels in manners that do not increase harvesting capacity, instead of investing the money in a new vessel. It may also allow smaller increments of the Fund to be used more often, instead of the current system where the Fundholder must make fewer, larger improvements of 100,000 dollars or 20 percent of the acquisition cost of the vessel.

At the same time, the amendment could better meet the goal of modernizing the fleet by promoting vessel safety, product quality, and improved compliance with environmental laws. The amendment is in a good position to be passed. Of the five substantial amendments that have been made to the Program since its implementation, four of them were riders on a larger bill, in which they were of relatively minor importance. These are the same circumstances under which the current amendment is awaiting action. In addition, the proposed amendment concerns vessel safety, food quality, and improved environmental quality, three items which have few opponents in Congress.
OUTLINE FOR INTERVIEW WITH VESSEL OWNERS

1. How long have you been a commercial fisherman (involved in commercial fishing)?

2. Has your family been in fishing, if so how long?

3. Why are you a commercial fisherman (involved in industry)?
   - Economics/money/business
   - Ethnicity
   - Kinship
   - Job satisfaction (Specify below)
   - Other (Specify below)

4. What do you think the three major problems in the New England fishing industry are today?
   1. ____________________________
   2. ____________________________
   3. ____________________________

5. How many vessels do you currently own/lease?

6. How long have you owned/leased your current vessel(s)?
   - Current vessel number one
   - Current vessel number two
   - Current vessel number three
   - Current vessel number four
   - Current vessel number five

7. What is (are) the overall length(s) of your current vessel(s)?
   - Less than 36'
   - 36' to 49'
   - 50' to 99'
   - Greater than 99'

8. Where did your current vessels come from? (Put one check on the appropriate blank for each vessel).
   - New from the shipyard
   - Used from the fishery it operated in
   - Used from outside of the fishery it operated in
   - Other (Please specify below)

9. How many vessels have you owned/leased in the past? ______
10. How long did you own/lease your former vessels?

Former vessel number one __________________________
Former vessel number two __________________________
Former vessel number three __________________________
Former vessel number four __________________________
Former vessel number five __________________________
Former vessel number six ____________________________
Former vessel number seven __________________________

11. Where did your former vessels come from? (Put one check on the appropriate blank for each vessel).

_____ New from the shipyard
_____ Used from the fishery it operated in
_____ Used from outside of the fishery it operated in
_____ Other (Please specify below)

12. What were the fates of your former vessel(s)? (Please put one check on the appropriate blank for each vessel)

_____ Resold for fishing in the fishery it operated in
_____ Resold for fishing outside of the fishery it operated in
_____ Scrapped
_____ Converted to a non-fishing vessel
_____ Other (Please specify below)

13. Has each vessel you've owned been larger, more sophisticated, and more efficient than the previous ones?

14. What species do you target (and gear used)?

15. Are you familiar with the Capital Construction Fund Program?

_____ Yes  _____ No

16. If you answered yes to question 14, do you feel the CCF program should be:

_____ Maintained as it is
_____ Abolished
_____ Maintained but modified (please explain modifications on the back)
_____ Indifferent
_____ Not familiar enough with program to answer

17. Is the CCF an incentive to remain in or expand in the industry?

_____ Yes  _____ No
18. Does the CCF contribute to overcapitalization?  
   ___ Yes  ___ No

19. Do most CCF vessels target underutilized species?  
   ___ Yes  ___ No

20. Have you ever used the Capital Construction Fund Program?  
   ___ Yes  ___ No
 Why/why not?

21. If yes, do you currently use it?  
   ___ Yes  ___ No

22. Why did you quit using the CCF?

23. Would you use the CCF in the future?  
   ___ Yes  ___ No
 Why/why not?

24. Do your CCF vessels target same species mentioned earlier?  
   ___ Yes  ___ No

25. Would you still own a vessel if the program did not exist?  
   ___ Yes  ___ No

26. Would you still own as many, as sophisticated, or as large of vessels as you do now if the CCF program did not exist?  
   ___ Yes  ___ No

27. How many of your former and present vessels were built with the CCF (Schedule B)?

   Former ___________________
   Present ___________________

28. How many of your former and present vessels contributed earnings to a CCF (Schedule A)?

   Former ___________________
   Present ___________________

Additional Comments below and on back.
APPENDIX B

GENERAL COMMENTS OF FISHERMEN

Those Who Have Used the CCF
- The Program should only be used when you want to buy a boat, and you do not need a new boat every year.
- Many have used the CCF as a tax strategy to try to get around them. They only worry about this year, not future. People built up sizable accounts in this manner and it only made sense to build more boats.
- It is the only way to maintain fleet. Should only be used by owner-operators with experience. Applicants should be screened and managed carefully.
- It allows you to survive to make next payment.
- CCF forces people to build bigger boats, it is the only way to maintain tax benefit. Should be modified in a manner that will not increase pressure on fishery.
- CCF may make upgrading easier than it should. Conditional fisheries are not enforced so CCF vessels could be catching a lot of cod and yellowtail. Program may be good for young guys just starting out. Need simpler and enforceable management plans.
- CCF is good in some cases, no good in other. Banks and outside investors overcapitalized the fishing industry.
- Government intervention, the CCF, investment credit, and the overabundant availability of bank loans caused overcapitalization. The very nature of the CCF forces you to invest in larger vessels or pay taxes.
- Boats repossessed go up for auction and keep recycling - need to get rid of them. Investment credit hurt - it was a double edged sword. It helped those in the industry, but also allowed entry of outside investors. Absentee owners have the most insurance claims which hurts the industry.
- It is advantageous to use CCF to make boat payments.

Those Who Have Not Used the CCF
- I think people are wiser now than they used to be and are using Funds to payoff current debt instead of building new vessels. The CCF causes a lot of problems if you do not use it properly.
- CCF is not an advantage to those who are not fishermen. Investment tax credit was the problem because it allowed non-operators in the industry. CCF is more valuable under poor conditions like today. Bands acted in wrong manner: they loaned too much money in the 70s and not enough now.
- CCF encourages people to fish on species they would not otherwise be encouraged to fish on. I would be for government subsidies if they solely benefited owner-operators. Unprofitable boats hurt the industry, because when they lose money they are just purchased by someone else. This is what happened to most of the vessels owned by non-fishermen in the 70s.
- I think just as many people would own just as many vessels and just as large of vessels, but probably not as fancy.
- Things are not what they used to be. Big businesses, not owner-operators are the problem. Industry will be tough for the next four or five years, have to battle to make payments.
- Tax laws are so messed up it makes a vessel owner use the CCF and go bigger and stay in the industry. When a boat is depreciated, taxes increase, forces people to use the Fund. Need to restructure management program - change approach, current system is not working.
- Laws should allow you to use a large mesh codend and keep what you catch. If you are targeting squid with a fine mesh, only allow a certain percentage of other species.
- Industry is in poor condition right now.
- Company boats are not helping sole proprietorship boats.
- All the investors that entered the industry after declaration of 200 mile limit overfished and depleted the stocks. Dry spells get longer. Need more joint ventures. Government should stand behind fisheries with loans, etc. like Canada does.
- Those who get financial aid should be directly involved in fishing. Should be grandfather rights.
- Because of mesh size and high fuel costs, the industry will wind up with all large and small vessels - none in between.
- Hope program stays - it is a good business advantage.
- Need to control amount of capital going into industry. Banks are responsible for a lot of the problems, first they loaned too much, now they have backed off and do not help enough. I object to outside investment, not inside investment. CCF is good if you plan to stay in or have a stake in the industry.
- CCF helps people stay in the industry.
- Guys that use the CCF would be in the industry anyway. Government is forced to subsidize industry now because they have made it a false market. CCF monies are put into larger boats. Fish cannot handle large vessels.
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