THE 10 Steps FROM DECKHAND TO BOAT OWNER
PART 1
THE BUSINESS PLAN

Presented by:
National Fisherman  Pacific Marine Expo
Commercial fishing is a profession. And like most professions, there is a career path. Unfortunately, that career path may not be as easy to follow or as well marked as many others.

While there are a host of dedicated schools and training programs for many careers, for commercial fishing it can often feel like you’re out at sea, all on your own, with just the stars and your own wits to help you get home.

That’s why Pacific Marine Expo is now publishing this 10-part guide to help you navigate the choppy waters of moving from entry-level deckhand to commercial-fishing boat owner, moving through the many topics you’ll need to understand, and tasks you’ll need to accomplish, before you can captain your own vessel.

Here in Part 1 we get you started with the essentials: Putting together a business plan.

THE BUSINESS PLAN

Before you can even think about buying your own boat, you’re going to need a plan. A business plan. Because it’s not just a boat, it’s a business. No loan officer, private funds investor, or government regulator is going to take you seriously without evidence that you have a plan for success and understand not just how to fish and operate a vessel, but also how to operate a business.

It’s vital that you gather up a minimum of necessary pieces.

1 – Where will you fish? Any boat is essentially worthless without a product you’ll be taking from the water and selling for a profit. As you surely know, it’s unlikely you can simply set sail, throw down some nets or lines, and start landing fish.
Rather, you need to identify a fishery and how you’re going to get access to it. Are there permits available? How much do they cost? How long of a season does that fishery have? What direction are the quotas headed in for that fishery? Is there a long-term outlook for success, or is there some concern the fishery will be shuttered or curtailed?

Generally, deckhands tend to stay in the fishery in which they’re already working. It’s familiar and they know how to fish it. But make sure there’s room for one more and be able to document it.

2 – Who’s going to buy your stock? In order to turn your catch into revenue, you need a buyer. Sometimes, you need a lot of buyers. Will you be working directly with a processor? Will you be selling directly to the consumer, essentially off the back of your boat? Or will you be working with another kind of middle man, such as a fish exchange or wholesaler? How much will you get per pound?

This is not a decision you can make once you’ve already got the catch in hand. Anyone working with you to finance your new business is going to want to see two essential pieces: revenue and expenses.

Which brings us to:

3 – How much start-up capital will you really need? In short, there’s a lot more to starting up a commercial fishing business than buying a boat. Much of this will be fodder for future chapters, but you’re also going to need to pay for the fishery permit, for licensing, for insurance, for gear, for employees, and a slew of other expenses.

“Tell me about your bait costs, what are your fuel costs going to be,” says Rob Horne, who’s been doing commercial fishing loans for Farm Credit East for nearly 25 years. “Do some homework to make sure you’re going to make enough money to pay this loan back.”

Depending on who you talk to, you might want to have six to 12 months of monthly operating expenses in the bank when you fire up the business, so make sure to work that into the size of any loan you get. If you can’t weather a bad catch, a bad storm, or a bad accident — and maybe all three right out of the gate — you’re going to find yourself quickly behind the eight ball.

“The most common mistake we see with new fishing businesses is not anticipating the time and startup costs involved with a new vessel or entering a new fishery,” reports the State of Alaska’s Division of Economic Development. “Planning is crucial: Anticipating the learning curve for a new vessel or fishery when projecting income and budgeting for the first-year startup costs that may involve new gear, fuel, electronics, or safety equipment.”
4 - Now do the math. In finance, they call it “the P&L” — the document that shows your revenues against your expenses, short for “profit and loss.” While many start-up businesses will project to show a loss in early years, as the business gets going and draws down start-up capital sitting in the bank, most commercial fishing operations don’t have that luxury. Most lenders are going to want to see a path to profitability right from year one.

So, you’ll need to project your start-up expenses and your monthly expenses, and do that conservatively. What’s the most you could see yourself spending in a month? Don’t forget your own, personal, take for your own personal expenses, though many first-time vessel operators have to live lean in the early days.

Then you’ll need to project your revenues, and, again, you should do that conservatively. What’s a not-great catch look like in terms of how much you’ll be able to sell it for? Don’t fall into the trap of “wish-casting,” which is a lot like forecasting, but takes a very rosy picture of potential revenues to “make this thing work.”

If the P&L only shows positive cash flow under ideal catch situations, that’s probably a bad business plan.

However, if it looks like you’ll be nicely cash-flow positive, you’re ready to take the next steps. The good news? That business plan is your plan of attack for the rest of the process of getting your own boat and firing up your business. If you’ve done it right, it should be smooth sailing and calm seas from here.

Additional Resources:

Free commercial fishing business plan software:
https://fishbizplan.org/

Island Institute’s tools for creating a sustainable fishing business:
http://www.islandinstitute.org/program/marine/sustainable-fishing-businesses
PART 2
LICENSING AND PERMITTING

Presented by:
The 10 Steps from Deckhand to Boat Owner

PART 2

LICENSING AND PERMITTING

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Here in Part 2 we take a look at the licenses and permits you’ll need to get started on the water.

PERMITS AND LICENSES
Quite simply, commercial fishing can require a lot of paperwork. Your permitting and licensing requirements can be complex and dizzying, and you’ll find quite a lot of chicken-and-the-egg predicaments: Many licenses and permits require you to provide your boat’s registration number — but you’re trying to get a boat and all you’re trying to do is figure out what permits and licenses you’ll need!

Rest assured that there are many people working at state and federal agencies ready to assist you. Be ready to spend a good deal of time on the phone figuring it all out. There are seemingly countless variables, so it’s impossible to tell you exactly what licenses and permits you’ll need, but we can at least go over the types of permits and licenses you can expect to acquire:
Coast Guard (which is sort of federal, but different): In accordance with the Commercial Fishing Industry Vessel Safety Act of 1988, there are many safety regulations any commercial vessel has to follow. We won’t enumerate them here, as the Coast Guard has a handy guide for that, but make sure to understand that you won’t be going anywhere on your commercial vessel without passing a dockside examination before beginning operation and then once every five years after that.

This applies to any commercial fishing vessel that operates beyond three nautical miles from the territorial sea baseline or the Great Lakes coastline, or operates with more than 16 persons on board, or is a fish tender vessel in the Aleutian trade. It can be complicated as to whether Commercial Fishing Vessel Safety Requirements apply to a vessel, so it’s important to contact the Coast Guard and get advice if you’re unsure.

Further, all masters, mates, and engineers on vessels more than 200 gross tons and operating beyond the boundary line must have an appropriate Coast Guard license to work in that capacity. It may also be worth noting that the master, chief engineer, radio officer, or officer in charge of a deck watch or engineering watch must be a U.S. citizen.

Should you want to carry passengers, such as for a fishing-for-hire boat, you also need a captain’s license from the Coast Guard.

Federal: There are more than 30 different kinds of federal commercial fishing permits and they are generally broken down by management region: Alaska, Caribbean, Gulf of Mexico, Pacific Islands, New England, Mid-Atlantic, South Atlantic, and West Coast. Plus, you might need a permit for “Highly Migratory Species,” which travel between regions.

The Alaskan management region, alone, has 10 different permits and licenses for the federal waters off of Alaska, from Chinook Salmon to Scallops.

Generally, the price for a permit is relatively inexpensive — often less than $100. However, if you are seeking a permit for a fishery that is either Limited Access or Moratorium, you’ll need to get a permit transferred to your vessel, which means buying it from someone else. Depending on the fishery, that can be many thousands, even hundreds of thousands, of dollars.

Some federal fisheries may also require the installation of a vessel monitoring system, which tracks your whereabouts to make sure you are only fishing in approved areas.

State: In addition to federal fisheries permits, just about every state has its own permitting and licensing office. Again, the type of permit that you need and how
much it costs will depend on the seafood you’re looking to land. It may also be that some of these state permits are limited in nature and that you’ll have to buy one from another commercial fishing entity, which comes with its own rules and regulations.

This all might seem like putting the cart before the horse — you don’t even have a boat yet! — but it’s vital that you understand these requirements, plus a variety of other requirements for when your targeted fishery opens and closes, etc., as you develop your business plan.

There are certain brokers who specialize in fishing permits and effectively set the cost of entry to different fisheries. If you’re looking for an Area M Drift Salmon license, the current asking price is right around $150,000. For California Sea Cucumber, you might be looking at a little more than $20,000. A Puget Sound Crab Lease might run you about $16,000.

If the permit you want is limited, it could be a very big part of your start-up costs, indeed.

“Commercial fishing is more complex than ever,” advises the State of Alaska’s Division of Economic Development. “A new entrant should participate in the public process, attend the Board of Fisheries and North Pacific Management Council meetings, and become educated on the topics that will affect your livelihood.”

Additional Resources:

Coast Guard Guide for Commercial Fishing Vessels:  

NOAA commercial fishing permitting:  
https://www.fisheries.noaa.gov/permits-and-forms

Permit Master online broker:  
https://www.permitmaster.com/
PART 3
GETTING THE LOAN

Presented by:
National Fisherman
PART 3
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Here in Part 3 we take a look at what you’ll need to secure a loan.

GETTING THE LOAN
Boats aren’t cheap. Maybe you’re someone who’s a great saver and you’re ready to pay in cash, in full, but most people buying their first boat will need some financial help.

Most sources in the industry would recommend one of two avenues: First, a commercial lending bank that has some specialty in fishing, or, second, a government program like the Alaska Division of Economic Development’s Commercial Fishing Revolving Loan Fund. Sure, any bank can lend you money, but those that specialize in fishing will often offer payment plans in line with the fishing season and have a better understanding of the value of the asset that you’re looking to acquire.
They’ll also be more likely to work with you and consult on the many issues that are unique to commercial fishing. The State of Alaska’s Division of Economic Development reports that, “Most applicants have had several conversations with staff before ever submitting an application.”

But before you walk into that office, you should definitely have the following things in hand:

1 – **A business plan.** We discussed this in Chapter 1 [insert link] of this series, but, in short: You need to show how you’re going to have enough money to make the loan payments.

2 – **A financial statement and three years of tax returns.** Essentially, what do you have in the bank, what has your income been over the last three years, and have you successfully paid your taxes?

3 – **Good credit.** This can be a major sticking point, so it might be something you need to start working on right away. If you’re under 650, you’re going to have a hard time getting a loan. Period.

Even if you’re between 650 and 700, many banks will want you to find a government agency — like the U.S. Small Business Administration or a state agency like the Finance Authority of Maine — or a family member to guarantee or co-sign the loan. This is especially likely if you’re younger and don’t have much of a credit history established. Being able to demonstrate the ability to pay off a debt, like a credit card or small car loan, can go a long way toward establishing solid credit.

Many deckhands looking to get their own boat have some dings on their credit score, says Rob Horne, who has been overseeing commercial fishing loans at Farm Credit East for nearly 25 years. Cell phone bills, “or medical bills, that’s very common,” he says. “IRS liens are also very common. Any of those things will ding your credit, but that doesn’t mean you can’t get financing.”

It just means you might need a little help.

4 – **Cash and a permit.** “We typically finance 70 percent of the appraised value of the hard asset, and by that I mean the boat,” says Horne. “The boat has more value if it comes with a federal permit [link to Chapter 2 on permitting]. A federal permit, not a state license, is something that actually has value; it trades back and forth and we can get a good security interest in it.”

What this means is that you may be able to put less cash down if you have a federal permit already secured. Of course, you may need the loan to secure the
permit in the first place, so that may mean you need more cash on hand.

As a rule of thumb, expect to need about 30 percent of the price of the boat, plus the price of the permit if you’re making that part of the deal, in cash to put down.

5 – Collateral. Usually, the collateral is the boat you’re purchasing and possibly the permit that comes with it. However, if you’re a little short of cash, it is possible to use other assets to secure your loan.

For instance, if you’re working a small boat for semi-commercial operations, you could possibly use that as part of the down payment while you wait for it to sell. Or you might have a family home or a commercial truck you could use to secure the loan until you pay some of the principle down.

6 - Insurance. Generally, you’re going to need insurance that covers the entire value of the boat. And that’s just a start. Theoretically, you could find a lender that would allow you to insure just for the value of the loan, but you’re putting yourself there in a risky situation where you could have a total loss and not have enough to get back to the starting line.

Further, you should probably have about a million dollars worth of liability insurance, perhaps breach of warranty insurance if you’re engaging in any non-standard practices like lobster-boat racing, and then some insurance for any sternmen you might employ.

While the Jones Act says you don’t workers’ comp insurance, you should still have something for them should they get injured on the job.

Look for more on the proper insurance approach in later chapters, but, in short, make sure you find an insurer who knows the industry. Just like your bank.

Additional Resources:

Alaska Division of Economic Development Commercial Fishing Loan Program: https://www.commerce.alaska.gov/web/ded/FIN/LoanPrograms/CommercialFishingLoanProgram.aspx


Juneau Economic Development Council Loan Program https://www.jedc.org/business/loanfishing
PART 4
PICKING YOUR VESSEL

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National Fisherman  
Pacific Marine Expo
PART 4
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Here in Part 4 we explore the factors you should consider in deciding on a vessel to purchase.

CHOOSING YOUR VESSEL

There is an old business adage: Stick with what you know. As you consider purchasing a vessel to further your career in commercial fishing, it’s likely your thoughts will first turn to a boat very similar to the one you’re currently working.

In fact, many sternmen buy their first boats from a captain they’ve once worked with who’s now exiting the business, or a friend or family member. The seller might even tell you it’s a great deal!

“I always get that question,” says Rob Horne, who has been overseeing commercial fishing loans at Farm Credit East for nearly 25 years. “I’m buying
this boat and I’m getting a really good deal. Can I not put money down because
the boat is worth 200 thousand, but I’m buying it for 150?’ But then we run the
model and the boat is worth 150. Good deals might sound like good deals, but
typically the sale price is the market value.”

Everyone agrees: Shop around. Expand your horizons. Remember that you’re
looking to start a business and it’s important to do the due diligence necessary
to make sure the vessel you purchase is the foundation that will set your
business up for success in the short and long term.

As you conduct your search, here are some things to consider:

**1 - The fish market — and the weather — affects the boat market.** One of
the reasons forward-thinking is important in planning your commercial fishing
business is that the value of vessels rises and falls considerably based on
market conditions. Boat manufacturers can only build so many boats in a year
and successful fisherman rarely decide to just up and sell a perfectly good boat
when they’re raking in cash.

When the market in Alaska was poor, notes Lea Klingert, president of
Commercial Fishing and Agriculture Bank, “the boat market was more of a
seller’s market, and a lot of the boat builders shifted to leisure-type boats.”
After a while, the market improved, commercial fishermen started to re-enter
the market, and boats became scarce. That got manufacturers interested again,
especially for the waters of Prince William Sound: “So that market is a little
flooded right now.”

A flooded market means a good time to buy — if you’ve got the capital. “For
new entrants,” Klingert admits, “it’s generally going to be a used boat. The new
boat isn’t in their price range.”

Think long-term, however. Did a fishery just get severely limited so the stock
can recover? Look for someone trying to unload a boat fast and get that deal.
Is a new vessel design now all the rage? Look for still-new vessels in the old
design that might be good enough to get started.

Conversely, if a major storm just ripped through the boats working a fishery
you’re interested in, you can be sure that any lost vessels will need to be
replaced, and that those who lost vessels likely have insurance cash they can
use to keep the builders occupied. That’s probably not the right time to be
looking at a new build or a used boat.

And remember that other old business adage: Buy low, sell high.
2 - The age of the boat affects the terms of the loan. One factor that might pull a new build into your price range is the fact that lenders might let you spread the payments out over a longer period.

“If it’s an older boat, like earlier than 2000, even if it’s a fiberglass boat, we’d typically do a five-to-seven year term on the repayment,” says Horne. “If it’s newer than 2000, I’d do seven-to-10 years on the term. A brand new construction, I’d do 15 years.”

Not every lender will have the exact same thinking, but it’s definitely true that a new build will instill a lot more confidence in a lender you’re asking to give you more time to pay back a loan.

Klingert notes that a good loan officer, too, will understand that an older boat will have more maintenance costs and upkeep costs along the way, which will affect your ability to make payments. Since Klingert’s CFAB is mission-driven to help fishermen succeed, they look at much more than things like credit score and payment history when deciding on a loan. They want to make sure the business plan works; you should too.

If a boat is likely to need an engine rebuild or a re-hulling in the near future, that’s going to affect the business plan.

3 - The fishing industry is changing; will your boat help you keep up? Going forward, it’s unlikely that quotas will get larger, or that seasons will get longer. That means many forward-thinking captains are looking at diversification. Does the boat you’re eyeing allow you to fish multiple fisheries?

“We’re seeing lobstermen looking at the future of the business,” says Ben Martens, executive director of the Maine Coast Fisherman’s Association, “and they’re buying some small permits to do some gill netting so they can diversify.”

The MCFA is working with fishermen to re-rig boats to go trawling, but only certain boats will allow for that. Similarly, the Nature Conservancy is offering good deals on electronic jigging machines allowing fishermen to avoid cod or turn their lobster boat into a groundfishing boat. Diversification is becoming key to survival in many areas of the United States.

“Relying on one stock is really dangerous,” says Martens. If the boat you’re eyeing will only allow for one approach, you may want to build retrofitting into your business plan’s start-up costs — or avoid that boat altogether.
4 - Don’t neglect the small details. These may seem like obvious things to look out for, but they’re worth mentioning:

• Make sure the fuel capacity is appropriate for the fishery you’d like to access.

• Make sure the storage capacity is appropriate for the haul you’d like to bring back.

• Make sure you and your crew will be comfortable on the boat, with appropriate accommodations, like a sun canopy, washdown system that’s easy to operate, and a decent head.

• Make sure you get a fully detailed history, including any damage the vessel has taken, all safety inspections, and anything else that might affect the value or operation of the boat.

This is the foundation you’re building your business on. You can’t do too much due diligence on a used vessel

Additional Resources:

Sea Grant Alaska, “Climate Change and Alaska Fisheries”:

Proceedings of the National Academy of Sciences, “Benefits and risks of diversification for individual fishers”:
https://www.pnas.org/content/114/40/10797

Maritime Law Center, “The Tax Man Cometh”:
PART 5
OUTFITTING YOUR VESSEL

Presented by:

National Fisherman  pacific marine expo
PART 5

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Here in Part 5 we look at what you’ll need for outfitting your boat for the long haul.

OUTFITTING YOUR VESSEL

There’s a reason that commercial fishing expos have as many as a thousand booths: Commercial fishing requires a lot of gear, and some of it can be expensive. If you’re not incorporating the cost of outfitting, and maintaining, your vessel in your business plan, you’re likely over-estimating the profit you’ll be able to take from the business.

Sure, much of the gear you’ll need from the get-go might come with the used vessel you’re purchasing, but gear doesn’t last forever. It depreciates rapidly and needs to be replaced on a regular basis. Most important is to plan for that depreciation and not simply hope nothing breaks as you look at your likely costs for year one and beyond.
Experts say it’s useful to think of your gear in a set of broad categories and look at your costs and planning for each of them. As the Alaska Division of Economic Development notes, “The most common mistake we see with new fishing businesses is not anticipating the time and startup costs involved with a new vessel or entering a new fishery. Planning is crucial. … First-year startup costs that may involve new gear, fuel, electronics, or safety equipment.”

1 - Actual fishing gear. This is the gear you use to land product — lines, nets, lobster traps, whatever it might be that allows you to land stock from a fishery. Obviously, you can’t do without it, but it’s important not to think of it as a one-time cost, but rather have a plan to think about your annual spend.

No gear is so durable it won’t sustain some damage or loss during a season.

Some industry veterans recommend wrapping new gear into the initial loan, regardless of whether old gear is coming with the used boat. That first loan is when you’ve got the buying power and the gear should be a relatively small portion of the loan. Even if you don’t immediately need it, store it until you do. Then, you’re ready for the first round of wear and damage. When you’ve got equity built up in the boat a few years down the road, you’ll be ready to get a line of credit that will allow you to purchase gear as needed, rather than waiting for the end of a season, when you’ve got the most cash on hand.

Also remember that most insurance companies won’t insure the gear, as it’s too easily lost and damaged. The premium will essentially just be the cost of replacing the gear, so why bother? So, if your business plan doesn’t include either a line of credit or some storehouse of cash on hand, it’s a bad plan — one bad storm could put you on shore for good with nothing to fish with.

Some banks will do straight gear loans, but the terms will be short: one or two years at most, likely with monthly interest payments and then a principle that comes due quarterly or annually. They know the life-spans don’t support anything longer and they don’t want you to get upside down.

The best and most practical plan is to refresh nets, pots, and lines proportionally at the end of each season before profit-taking. It’s not really profit if you’re just pushing expenses off until next season.

2 - Communications gear. If you don’t plan on going more than 20 miles from shore, and if there’s a Coast Guard station you can reach throughout your fishing area, a cell phone might be all you need. However, if you don’t have coverage at any point in your territory, or if you go beyond 20 miles, you’re going to need a
satellite-converter sleeve for your phone, which generally run $500 plus a data plan, or some kind of on-board radio.

The on-board radio will probably run you somewhere between $500 and $1,500, depending on just how far out to sea you’re going.

3 - Navigation gear. While, technically, all you need are maps on board, that’s hardly practical nowadays. A digital GPS and mapping computer are now relatively standard for most commercial fishing vessels. These can sometimes be combined with sonar and other fishfinder devices, which are also becoming relatively standard.

While there is a wide range of options here, you’ll likely spend somewhere between $2,000 and as much as $15,000, depending on your feature requirements.

4 - Safety gear. We’re going to look at this more fully in future installations of this series, but rest assured there is a great deal of safety equipment mandated for commercial fishing vessels and that safety gear is not free. Further, it must be periodically inspected and refreshed when it is out of date.

Nor is it likely you’ll want to rely on a bunch of used safety gear when you purchased a used vessel — at least not without thoroughly inspecting it. If the boat you’re purchasing is very old, you’ll also want to make sure you have proper deck rails, lifelines, and hand grabs, as they may not have been required when the boat was built (this is unlikely, but it’s still worth thinking about).

5 - The latest and greatest. All of the above is just the bare minimum. Nowadays, any number of technological advances are coming into commercial fishing. You might decide you need a video recorder to monitor your trawl net. Or maybe a little submersible camera you can use to inspect below your vessel for various reasons.

There are also catch sensors; specially designed on-board computers, servers and displays; special lighting fixtures; all sorts of back-up power options.

One manufacturer even makes a headset you can wear to let them see and hear what you see to provide you with remote troubleshooting support. But you probably won’t need that for your first vessel.

The point is that some of these pieces of equipment may very well provide a return on investment, but it’s vital that you do that analysis as part of the overall business plan and don’t get wowed by shiny features.
Additional Resources:

U.S. Code of Federal Regulations: Requirements for Commercial Fishing Industry Vessels:

Marine Stewardship Council, “Fishing Methods and Gear Types”:
https://www.msc.org/what-we-are-doing/our-approach/fishing-methods-and-gear-types

NOAA, “Fixed Gear Guide”:
PART 6
MEETING YOUR SAFETY OBLIGATIONS
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Here in Part 6 we offer an overview of the safety regulations you’ll need to understand and comply with.

**MEETING YOUR SAFETY OBLIGATIONS**

Intellectually, no one really objects to safety regulations. They exist, after all, to protect you when you’re out on the water. They may not, however, be your first consideration as you look at your commercial fishing business, and their complexity and the extensive list of necessary items for even a small vessel can come as a shock.

While the initial buy up of all the necessary equipment can be a bit expensive, especially for larger boats, the expense is clearly not as large as the alternative: Finding yourself stuck at the dock because you’ve failed a Coast Guard examination.
In fact, a Coast Guard Boarding Officer can order a fishing vessel to return to its mooring if they find an "especially hazardous condition," including:

- A lack of sufficient personal flotation devices, immersion suits, or survival craft.
- A lack of distress communication equipment.
- A lack of firefighting equipment.
- Excessive fuel vapor in bilges.
- General instability.
- Intoxication by the master.
- A lack of navigation lights.

And that’s just a start.

The most helpful tool for figuring out what you need on your vessel, so that you can estimate costs and time needed to factor into your business plan, is operated by FishSafeWest.info, created by the U.S. Coast Guard. The web app, which you can find here, allows you to answer questions about your prospective vessel and then generate a checklist of all the items you’ll need to pass a dockside safety exam conducted by a Coast Guard Safety Examiner.

An exam is mandatory for any vessel operating on the ocean, Great Lakes, or Puget Sound three miles or more from shore. Further, considering that even small vessel operators are being encouraged to diversify their catch as much as possible, you may want to have the proper safety equipment so that you can pass an examination at any time, should you want to diversify into a fishery that takes you more than three miles out to sea.

It’s generally easier to outfit your vessel all at once with your initial loan, rather than try to ramp up midstream.

While every vessel will make different safety choices, considering there are number of options for solving certain safety concerns, here is a quick overview of pieces you might not think of right away:

- **A fishing agreement with any crew member.** Part of the Coast Guard’s safety regulations involves every crew member having a document, on board the vessel, that details the compensation agreement, the term of the
contract’s effectiveness, and another arrangements you’ve made with the crew member as a term of service on the vessel.

• **An alcohol testing kit.** These are mandatory for any vessel likely to travel more than two hours from a testing location, since every crew member must be tested for alcohol within two hours of any marine accident.

• **Some kind of analog distress signal.** Just having a radio or beacon isn’t enough - you’ll need flares, smoke signals, or a flag of some kind.

• **If your boat is going to be longer than 36 feet and carry at least three crew, you’re going to need a survival craft that you can deploy.** Everyone needs PFDs or immersion suits for everyone on board.

• **A system for dealing with fuel oil discharge.**

• **A firefighting system of some kind.**

Luckily, the investment should be relatively insubstantial for smaller craft, which are most likely to be a deckhand’s first vessel. As the vessels increase in size, and in distance traveled from shore, the requirements increase. Pay close attention to the Coast Guard requirements.

Just having the equipment, however, isn’t enough. The master will also need some training before hitting the water. The Coast Guard offers free Stability Training online, which is useful information for avoiding finding yourself or your crew in the water, though it’s not required.

If you’re operating beyond the boundary line, though, you will need to conduct emergency drills that are supervised by a qualified drill conductor. Look for a local organization providing this kind of service before you plan to begin operations. This will run you through what to do if the boat begins taking on water, becomes unstable, or suffers some other issue on the water.

It’s clearly better to practice this once before encountering it in the real-world — especially if you’re a solo operator.

There’s also nothing that says you can’t carry extra lifesaving equipment, even if it’s not required by the Coast Guard. As long as you have the required PFDs on board, for example, you can still have or wear other lifesaving equipment that might not meet the letter of the regulations.

While it may be industry gospel that PFDs are a waste, since you’ll just die from the cold if you fall in, that belief is demonstrably false. Take precautions and save a life — maybe even your own.
Additional Resources:

Commercial Fishing Checklist Generator:
http://fishsafewest.info/checklist/generator.html

U.S. Coast Guard Safety Training:
http://fishsafewest.info/Training.asp

U.S. Code of Federal Regulations: Requirements for Commercial Fishing Industry Vessels:
PART 7
EMPLOYING DECKHANDS AND OTHER CREW MEMBERS

Presented by:
National Fisherman  pacific marine expo
EMPLOYING DECKHANDS AND OTHER CREW MEMBERS

Commercial fishing is a profession. And like most professions, there is a career path. Unfortunately, that career path may not be as easy to follow or as well marked as many others.

While there are a host of dedicated schools and training programs for many careers, for commercial fishing it can often feel like you’re out at sea, all on your own, with just the stars and your own wits to help you get home.

That’s why Pacific Marine Expo is now publishing this 10-part guide to help you navigate the choppy waters of moving from entry-level deckhand to commercial-fishing boat owner, moving through the many topics you’ll need to understand, and tasks you’ll need to accomplish, before you can captain your own vessel.

Here in Part 7 we offer an overview of what you’ll need to know to properly employ deckhands, sternmen, and crew members of your own.

EMPLOYING OTHER PEOPLE

While it’s certainly possible your first vessel will be small enough to operate single-handedly, it’s likely you’ll need help as you grow your new fishing operation. Making the decision to add employees isn’t an easy one, however. It’s important to weigh the additional capabilities each employee will bring to your business, and the additional revenue that will create, against the costs and obligations of employing them.

Like any other business decision, it’s risk-reward calculation: Will adding employees help you make more money?
To do that calculation appropriately, it’s important to know what employees really cost, all-in, and how those costs might go up or down in the course of a fishing season. The median fisherman makes roughly $28,500 annually, according to the U.S. Department of Labor, meaning that half of the 27,000 hunting and fishing workers (Labor groups them together) in the United States make more than that, half less. However, there should be pressure for that number to rise: The Department of Labor expects fishing and hunting jobs to increase by 11 percent, year over year, going forward, which means more vessels will be looking to hire more employees, which should drive compensation upwards.

First and foremost, you’ll need a Crew Member Employment Contract. This is required for most commercials fishing operations and is best practice, regardless, protecting both the vessel owner and the employee. While you’ve likely actually signed one of these at this point in your career, it’s worthwhile to go over the important pieces of a good contract:

• **Start date and end date:** Make sure both parties know when official employment starts and ends. This is particularly important in fisheries with short seasons or small quotas.

• **The actual job duties:** Make it clear what is, and what isn’t, part of the job. Young or inexperienced crew members might not be familiar with all of the cleaning, maintenance, and other ancillary duties involved with being a commercial fisherman.

• **Payment and expenses:** Obviously, this is the big one. There are a number of ways to compensate crew members; your decision here will greatly affect your business plan. Will you pay a percentage of gross catch? Or will you pay a percentage of net catch, after expenses? There is wide variety in this latter option, as well: Will you include fuel, food, transportation to the point of departure, gear, or other pieces in the “expenses,” or require that crew members pay for some of those things out of pocket independent of compensation?

There’s also the matter of whether you include all prep and finishing operations in that percentage compensation: Will you pay hourly or daily for time not on the water or include that in the percentage? Will you offer bonuses at the end of the season for crew members who make it to full term?

It’s obviously vital that all of these questions be answered in the contract to avoid disagreements, especially out on the water. As the fishing industry is generally exempt from worker’s compensation and unemployment coverage, you’ll also want to make it clear that the employee is not eligible for either.
• **Causes for termination:** Especially if your fishery means you’ll be out on the water for extended periods, termination can be dicey. Regardless, you’ll need to make sure both parties are clear on what will and will not be tolerated on your vessel. And you’ve got to be ready to head back to port and offload a crew member for certain infractions, or risk losing the trust and respect of anyone else onboard.

Common causes include use of drugs and alcohol while on duty or in preparation for duty (generally, within eight hours of being on duty; make sure there is a testing policy in there as well), failing to follow safety rules, being late, harassing other crew members, sleeping on the job, and insubordination (something of a catch-all). You may also include things like frequent seasickness or any other physical failing that would keep a crew member from performing duties.

• **Physical and medical fitness:** Given the “physical failing” cause for termination, it’s vital that you get potential employees to testify in the contract that they have no medical barriers to employment. You’ll likely want them to provide a medical history, outlining previous injuries and illnesses that may prove relevant to their job expectations.

• **Safety requirements:** Similarly, it can be helpful to lay out the safety expectations of employees in the contract so both sides have the same expectations. (See Chapter 6 for signage and other requirements ensuring employees understand their obligations while on the vessel.)

• **“End of Voyage Statement”**: Make sure the contract also has a section where the employee agrees that the contract has either been fulfilled or has been terminated due to cause or illness/injury, with a date and signature.

With that contract in place, employment should be relatively straightforward and you should be able to estimate costs.

Perhaps because it makes business planning so simple, the standard contract in Alaska, for example, pays crewmembers a percentage of “gross earnings,” which is defined in the contract as all the money the vessel operator receives for fish sold, minus the cost of food and provisions, taxes, bait, fuel, and in-season moorage. Notice the difference between “gross catch” and “gross earnings”: One is all the revenue you take in from the sale of fish, the other is all of the earnings taken in after expenses are taken into account. Make sure everyone is crystal clear on terms like those.

Percentages of gross earnings obviously incentivizes the crew — “The more we catch, the more you make!” — and controls your risk as a vessel owner. Your payroll won’t put you in the red. Further, if you’ve got a quota, you can estimate your potential revenue pretty easily, given current market pricing, and figure out
pretty quickly what your payout is likely to be.

However, in a tight labor market, it’s possible that potential crew members will balk at such an arrangement. You’ll have to read the local market and decide if a lack of guaranteed pay limits you to a substandard crew.

Finally, there is government paperwork. Because you’re not obligated to participate in workers’ compensation or unemployment insurance, you won’t have to worry about those issues, and few vessel operators offer health insurance (though injuries on board may be covered by your Protection and Indemnity Insurance — see Chapter 8). Further, crew members on vessels with fewer than 10 employees are generally regarded as self-employed, meaning they’re responsible for paying their own taxes. You simply issue them a Form 1099 at the end of their employment, detailing their compensation, and let them do the rest.

The above, however, largely only outlines your legal obligations. As you start out, it’s important to remember that you first employee is essentially your partner in the success of your commercial fishing business. Whether that first employee is your sister, your nephew, your best friend, or a total stranger you met on the docks, instilling loyalty and a passion for the success of the business is vital for your long-term success.

As you’ll discover, hiring new crew is difficult. Many people don’t work out. So making accommodations to keep good crew happy can be a good long-term investment. Make sure to factor in that cost as well. Further, remember that what you looked for as a crew member might not be what your future employees value — keep the dialog open and insure that communication is a two-way street.

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Additional Resources:


Infographic from Fishermen Led Injury Prevention Program on important pieces of crew contracts: https://health.oregonstate.edu/sites/health.oregonstate.edu/files/labs/kincl/pdf/crew_agreement_poster_final.pdf

PART 8
INSURANCE

Presented by:
National Fisherman  pacific marine expo
PART 8

INSURANCE

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Here in Part 8 we examine the types of insurance you’ll need to carry to protect your growing business and how smartly shop for it.

BUYING INSURANCE

Few people enjoy buying insurance. It’s understandably hard to get excited about paying for something you hope you’ll never use. However, says Sea-Mountain Insurance’s Michael Miller, who’s been working with commercial fishermen since the 1970s, “every small business will use its insurance at some point, whether it’s a taco stand or a commercial fisherman. I don’t think I’ve got a client on that books who hasn’t used their policy for some kind of claim. That’s just being in business.”
Plus, as discussed in Part 3 of this series, the lender that’s helping you purchase your boat is going to require insurance to protect their risk exposure anyway.

So, just as with any other part of your new business, it pays to be a smart shopper and do more than just check the insurance box. Sometimes, having the proper insurance can be the difference between continuing on as a successful business and being out of business entirely.

WHAT INSURANCE YOU’LL NEED
Generally, you’ll need to carry at least three types of insurance, and possibly a fourth:

1 - Hull and Machinery: This is the basic insurance that covers your vessel. Just as it sounds, this covers damage to the vessel’s physical structure, plus anything that might come up with the engine and other on-board machinery, outside of routine maintenance.

Your lender will require at least enough insurance, here, to pay back your loan in the event of a total loss. So, if you’ve put 25 percent down, the bare minimum you’ll need to get for insurance would be 75 percent of your purchase price. That would likely be shortsighted, however. Is 75 percent of the purchase price going to get you back out on the water? Likely not. Unless you’ve got another down payment sitting in your bank account.

Most industry observers would advise insuring for at least the full purchase price, which might not actually be the cost to replace the boat given a total loss, but should at least equip you with enough for another down payment.

One question that often comes up, says Sea-Mountain’s Dylan Hopper, is whether someone can insure against a vessel’s market value, in a case where they got a “good deal,” maybe from a family member, seemingly below what a boat could sell for on the open market. Unfortunately, that’s unlikely, as that’s a good way to encourage insurance fraud. “Suddenly, the boat goes down,” says Hopper, “and the owner is 40k ahead. That shouldn’t happen. The idea for insurance is that you get back to where you were, not for you to come out ahead.”

Further, it’s important to think about what your replacement cost will really be. If you’ve got a wooden hull, for example, the repairs will likely be a lot more expensive than with a contemporary fiberglass hull. Thus, “a wood vessel is going to have a much higher rating than a fiberglass boat,” says Miller. “That can be a big surprise. They’ll purchase a wood boat and then compare their policy to a fiber policy and the rating is completely different.”
Other factors that might increase the risk rating include the fishery you’ll be working, the age of the vessel, and whether you’ll be an on-board owner: As might be expected, vessels operated by captains who do not own them tend to see more damage.

Generally, you’ll be paying an annual premium of somewhere between 1.5 and 3.5 percent of the value of the vessel.

2 - Breach of Warranty: This is basically insurance to cover the things Hull and Machinery doesn’t cover. In general, it’s less expensive, has no deductible, and only pays out to the lender. This insures you’re not on the hook for a loan after your vessel has been ruined as part of some activity your Hull and Machinery coverage expressly prohibits or doesn’t expressly allow.

For example, if you blow out your engine racing your lobster boat, that’s not going to be covered by Hull and Machinery. But you also could be fishing out of area or in the wrong fishery — there are lots of weird things that can happen.

And here’s a tip: If the lender you’re thinking about borrowing from doesn’t require Breach of Warranty, they probably don’t work in commercial fishing very often and you might be wary of their familiarity with your line of business.

3 - Protection and Indemnity: This coverage insures you fundamentally against accidents that cause harm to someone or something — either on board your vessel or between your vessel and something else. Perhaps most importantly, it covers injuries to you and your crew, but it also covers you if you happen to bang into a pier or another vessel by mistake. It’ll even cover the cost of your wreck being removed from the bottom of the ocean, should that be necessary.

Miller notes you’ll usually want to take on about half a million dollars in coverage and that the deductible is usually relatively low.

However, your potential exposure on a P&I claim is a great reason to have a well-vetted crew member employment contract. “We refer our insureds to a maritime attorney who can go through the contract with them,” says Hopper. “That’s hugely valuable. The way it’s worded and structured can really determine whether a crew claim is covered or not.”

While you of course want to make sure your crew is properly insured and gets the compensation they deserve — including medical expenses, loss of crew share, and potentially loss of future earnings — the contract will make sure the crew understands their responsibilities regarding safety and drug and alcohol use and make sure you’re not on the hook if a crew member gets injured while flaunting safety rules or while intoxicated.
Plus, you should always make sure every crew member is listed on the policy by name and that your P&I is up to date before every new voyage of any considerable length of time or with any new member. Generally, you’ll be charged per crew member, per month — and that can definitely add up.

4 - Pollution: As Brannon Finney, captain of the Alaskan Girl, can tell you, NOAA and others can be serious about fines for pollution, whether the result of an honest mistake or not. While not every vessel owner carries pollution insurance, the biggest benefit here is having resources to make sure an “incident” doesn’t become a “spill.”

Not only will good pollution insurance pay for containment efforts, generally with no deductible, but it will also reimburse you for time lost on the water should you have to wait around for the Coast Guard and pollution response company to give you the all clear. Plus, the insurance company will likely have great contacts for response companies and potentially even manage the containment effort to make sure it’s done correctly.

It protects them as much as it protects you. Why not let the insurance company help you avoid risk?

Finally, notes Miller, the maximum fine for pollution is just under a million dollars. If you carry enough insurance to cover that, it shows a good-faith effort to meet your responsibility as a vessel owner, “so it’s very hard to sue you for negligence after that.”

TIPS FOR SUCCESSFUL INSURANCE SHOPPING
While you might be used to shopping for things like home or car insurance directly from the insurance company, it’s likely you’ll be working with a broker of some kind for your commercial fishing enterprise. In many areas, it’s required by law.

You should be looking for a broker that works often in commercial fishing — do they speak the language? — and that has a number of insurance agencies they work with on a regular basis so they have options to fit your specific business need.

That broker will represent your interests in working with the insurance companies and can be a real asset to your business, making sure you understand what is and isn’t covered, for example. Being in frequent communication will make sure you don’t miss a potential claim and miss out on an insurance benefit.
You’ll also want to make sure you get a new condition and valuation survey done for your vessel as part of the purchase process, which will uncover any damage or near-failure areas of the boat that could lead to a disputed claim down the road. There may be an opportunity to get a repair done before transfer of ownership, which will then avoid a future claim, which will avoid a potential increase in insurance costs.

Finally, like lenders, insurers want to know as much as possible about you so they can understand their risk. Most brokers recommend you put together a resumé that puts your record as a fishermen on display and reassures insurers that you know what you’re doing.

“The underwriter is trying to get a grasp for who this person is,” says Hopper, “and if we’ve never talked to them before, it’s really hard for us to relay that experience in the industry to the underwriter. A lot of times they’re looking for a skipper resume, and most brokers have a template for that.

“If you’re trying to buy a boat in a few years,” Hopper says, “and you want to be your own captain, if you can work with a deck boss or current skipper and can ask them for some wheel time and log that time, that’s really helpful. Then it’s documented, and it helps even more if you can get approved as an alternate skipper on that current vessel and policy. Then you can say, ‘Hey, I’ve been an alternate skipper, I know what it’s like to have crew underneath me.’ That experience is huge.”

Showing that experience, and displaying that someone else has had faith enough in you to put their boat in your hands, can go a long way in getting more competitive insurance rates.

THE FUTURE OF MARITIME INSURANCE
As a market, maritime insurance is a fairly small one compared to other underwriting activities, so the market has remained very stable over the years. There are reports that some commercial fishermen have been paying the same premiums since 1980.

Lately, however, there are signs of the market tightening up, as insurers look at their books and see a lack of profits in the maritime industry. Some are even getting out of the market entirely. That may affect pricing going forward.

“Think of marine insurance as a commodity,” says Miller. “If that capacity shrinks, then prices will tend to rise.”
It might be smart to factor in a 5 percent increase, year over year, for your insurance premiums.

It’s also possible insurers will try to limit their risk by operating more like the car insurance business, where your asset depreciates and just because you bought the car for $40,000 10 years ago doesn’t mean that’s what your insurance is going to pay out in the event of a total loss. Or maybe they’ll put a cap on repairs, so that the cost to fix your engine isn’t reimbursed as much as half the purchase price of your vessel.

But these kinds of changing factors are what make it important to find a trusted partner for an insurance broker. They read the market every day and know where to find value for you — if they understand the fishing industry. Ask questions, shop around, and make sure your business is protected against the unexpected.

Additional Resources:

Insurance and Risk Management Institute Glossary of insurance and risk-management terms: https://www.irmi.com/glossary?taxonomy=alphanumeric&propertyName=tags&taxon=a

MEET YOUR BUSINESS PARTNERS

Like any small business owner, as soon as you purchase your first fishing vessel and begin catching and selling fish, you’ll find you’ve got a lot more on your plate than just fishing. Quite simply, it’s impossible to do all of the tasks — maintenance, sales and marketing, preparing tax and legal documents, HR, etc. — necessary to make your business successful all by yourself.

As you’re putting together your business plan, it’s important to start thinking about and identifying just who these partners are going to be — not only so
you can consider costs you might incur, but also so you can see how they’ll positively contribute to your bottom line. Yes, you may be able to save money by doing some of these things yourself, but you should weigh the potential benefits of a professional service against the price for those services and the potential costs of screwing it up because you don’t know what you’re doing.

**FINANCIAL SERVICES**

 Already in this series, you’ve met two of your future business partners: your lender and your insurance broker. Don’t underestimate the vital role they’ll play in your business going forward. While it can be easy to think you won’t be talking to these folks much once you’ve got the loan and insurance in place, that would be a mistake.

These people not only have a stake in seeing you be successful, so that you pay your bills on time, but they have a storehouse of experience you would be a fool not to tap into. They’ve seen countless businesses similar to yours succeed and fail, and they can tell you the choices they’ve seen successful fishing operations make. Lean on them heavily. Ask questions. Make sure you’re not leaving any money on the table via failing to re-finance or make a claim or shopping around.

However, you’ll likely need a third professional to add into the mix here: an accountant.

For Genevieve McDonald, who bought her lobster boat six years ago, after eight years serving on the stern, the numbers were the hardest part as she did her business planning. “How much revenue I would need to take in, crunching the numbers — that’s where I needed the most help,” she says. “Guesstimating based on what I thought I might catch for poundage, how that would reflect on boat payments, crunching those numbers to make sure what I was dreaming of was feasible.”

Now that she’s up and operating, her financial planner continues to handle the book-keeping. “I let them figure it out,” she says. “I’m not good with numbers, so I hired someone who is.”

This can be as simple as end-of-year tax preparation, or as involved as serving as outsourced accounts payable and receivable, making sure you don’t have to worry about bills coming in and checks going out while you’re on the water. It might mean giving up a percentage of your annual revenue, but these professionals know where to save money by identifying alternative vendors, how to manage the books appropriately to account for tax write-offs, and how to make sure you’re tracking every penny and every penny out.
LEGAL SERVICES
There’s a whole profession called “maritime law” for a reason: Commercial fishing and other maritime regulations are complicated. Trying to make sense of all of them by yourself can not only be frustrating and confusing, but can also land you in very hot water. Developing a relationship with a maritime lawyer will give you confidence to go forward with your business and protect you from big surprises down the road.

For example, “We refer our insureds to a maritime attorney that can go through the crew member contract with them,” says Dylan Hopper, who works with Sea-Mountain, an insurance broker in Seattle. “That’s hugely valuable. The way it’s worded and structured can really determine whether a crew claim is covered or not. It can really protect the owner to have a proper contract. Just go to the attorney once and then get it updated every few years. Going through that is worth every penny. If a contract goes sideways that can really pile on the insured.”

Nor should you underestimate the risk of violating fisheries regulations. If you’re found in non-compliance with a fishery management plan, the penalties can include seizure of your catch, fines, and loss of your fishing permit, which can be devastating for your business. Having an experienced attorney on hand to help you immediately if you get a notice of non-compliance can make a huge difference. It’s best if they already know you and your business, as their response can be much faster and more effective.

That’s why it can be worth talking to an attorney during your business planning, so you understand the gear restrictions, available areas, catch limits and quotas, and vessel monitoring requirements for your fishery before you head out on the water. If a lawyer has helped you assess and set up your operation ahead of time, their reputation will be on the line if something goes awry and they’ll work that much harder to get you out of trouble.

Plus, these experienced attorneys likely have well-established relationships with the regulators and know what buttons to push and when. It’s a small community where relationships matter.

SALES AND MARKETING
The commercial fishing industry is changing. Like other industries around the world, the internet, speed of business, and changing social attitudes mean established ways of doing business are being disrupted. That can mean opportunity for those who think creatively, but commercial fishermen aren’t necessarily sales and marketing professionals stocked with ideas for monetization and new revenue streams.
“The traditional method for how we deal with fish is that they bring it to shore and they run it through the fish exchange,” says Ben Martens, executive director of the Maine Coast Fisherman’s Association. “Most fishermen don’t want to market or sell fish. They just want to catch fish.”

Unfortunately, shrinking quotas and fisheries can mean less fish, less money, and more pressure to diversify. Some fishermen have decided to try innovative approaches like going straight to high-end restaurants, or setting up cooperatives where a few boats collaborate to sell directly to the consumer. “Unfortunately,” says Martens, “now you have to be a fishmonger, a marketer, etc. And not every fisherman wants to do that. … You learn that middlemen are there for a reason. The dream that fishermen are going to own the whole supply chain? That only works in certain situations.”

For instance, “lobster is too much of a pain in the ass to keep alive,” says McDonald, the lobsterman from Stonington, Maine. “I have an independent dealer. Maine fishermen contribute to a marketing fee as part of our license and Maine does a great job of marketing lobster. … Trying to direct market lobster is just more difficult than it’s worth.”

Thus, it’s important to investigate paths to market — if you’ll be content with simply offloading your catch with a dealer and calling it good or whether it makes sense to investigate alternative revenue streams that might be available through direct sale or other avenues with different middlemen — as you develop your business plan and then annually between seasons.

Markets change. Quotas shrink and expand. Make sure your business is nimble and ready to take advantage of new opportunities. Having an array of business partners who understand your operations and can think creatively alongside you can be a tremendous asset.

Additional Resources:

Alaska Fisherman’s Network’s “Minding Your Fish Business“: https://www.akyoungfishermen.org/ayfn-resources#block-yui_3_17_2_1_153134568890_8886


HG.org’s guide to fisheries law: https://www.hg.org/fisheries-law.html

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Here in Part 10 we take a look at setting yourself up to exit your business, or retire completely, because it’s never too soon to start planning.

YOUR EXIT STRATEGY

In the summer of 2018 in San Pedro Bay, a guy named Bobby Austin sold his fishing boat, the Pisces, and finally decided to hang it up and retire. He was 100 years old at the time and had been fishing since taking his first deckhand job in 1937.
Do you see yourself heading out on the water at 100?

Maybe you do. The fishing life is more than just a career for many fishermen. But if you’d like to perhaps enjoy a bit of retirement before you hit the century mark, it’s important to start planning right from the start. The way you set up your business and finances is vital to how you finish things off at the end — hopefully with some money in the bank.

In general, there are three main paths to cashing out:

1 - The equity in your vessel: Like real estate, your boat is an asset with value that should outlive the term of your loan. And just like the family home, proper care and maintenance goes a long way toward preserving value and making sure the asset doesn’t depreciate. It may, in fact, appreciate in value with the right love and care.

Well, maybe for certain vessels with dock appeal.

In a 2016 study by the Port of Seattle, the average age of 400 vessels over 58 feet in length currently operating was 40 years, with six of them dating as far back as 1910. A Coast Guard study in the 1960s once estimated the life of a fiberglass hull at nearly a thousand years, barring some kind of impact.

In short, there’s no reason your vessel shouldn’t allow you to cash out down the road — as long as you are diligent with care and maintenance. It’s vital that you build routine maintenance into your business plan, with a schedule for swapping out gears, switches, the fuel tank, and other electrical and mechanical parts that have limited lifespans. You’ll also need to somewhat regularly repower.

If you build that into your business plan, it’s an expense you’re planning for and understand. If you don’t, it’s something you “can’t afford” and potentially put off, limiting your investment’s value. Don’t put it off.

2 - MARAD’s Capital Construction Fund: In order to keep the U.S. marine industry competitive, the U.S. Department of Transportation’s Marine Administration maintains the Capital Construction Fund, which allows commercial fishermen (and other maritime professionals) to put pre-tax earnings into a fund that they can later use to build a new vessel or make repairs or improvements to an existing vessel, as long as the work is done in a U.S. boatyard and the maritime professional is a U.S. citizen.

You do have to be operating a vessel that’s more than two net tons, as well, and the fishing business must remain active for the life of the fund, however.
“It’s a huge benefit for any small business,” says Mike Miller of Sea-Mountain Insurance in Seattle, who has worked with countless fishermen over four decades in the business. “I’m working with one business — a six-passenger sport vessel — who are using their CCF fund to build a new vessel. They plan to sell their old one, and then after they’ve had this new vessel for about a year, they’ll sell that, recapture the money, and retire.”

Because you’re putting pre-tax revenue into the fund, it can build much faster than a normal savings account and doesn’t come with the risk of investment accounts. If you’re thoughtful with planning on how to use the funds, it can represent a pension of sorts that allows you to cash out your business.

3 - A “Solo 401k”: Most people assume that retirement accounts like 401ks are only for people working at big companies, but the federal government also has a retirement program for self-employed folks as well. Called a “Solo 401k,” this allows you to save up to 25 percent of your annual income, plus as much as $19,000 on top of that, as pre-tax dollars, up to a maximum of $56,000. If you’re over 50, you can add another $6,000 on top of that.

You may want to consult a financial advisor, however, as there are some calculations specific to commercial fishermen who are “self-employed,” and have not set up their businesses as S-corps or some other corporate organization.

Essentially, you’re acting as both the employer and employee in this case. You should encourage your crew members to similarly save for retirement in this way, especially since they don’t own the boat like you do.

If you need the money later, before you turn 59.5 years old (yes, it’s 59 and a half), there are a variety of ways you can access the money, relatively affordably. First, you can loan yourself money out of your Solo 401k, with five years to pay it back at a “reasonable” rate of interest (you have 15 years to pay it back if you use it to buy a primary residence). Or you can simply take the money out, pay taxes on it like regular income, pay a 10 percent penalty, and use the money however you like. Luckily, there’s a hardship exemption, as well, that allows you to forestall an eviction or pay for college, but you’ll still have to pay taxes. And there may be a penalty.

After turning 59.5, you can then take out money whenever you like, paying income tax on the withdrawal. The benefit is that you’re theoretically making much less money when you retire at 59.5 and you’ll be in a lower tax bracket, so it comes out as a win. Plus, you don’t have to pay any capital gains taxes on the money you earned as part of how the Solo 401k was invested and managed.
Regardless of how you decide to plan for retirement, however, the time to do it is at the purchase of your vessel and the beginning of your business. If you don’t build it into your plan from the outset, it’s likely you’ll find yourself looking to retire, but lacking the funds to do so.

Additional Resources:

MARAD's Capital Construction Fund:
https://www.maritime.dot.gov/grants/capital-construction-fund

Internal Revenue Service, One-Participant 401k Plans:
https://www.irs.gov/retirement-plans/one-participant-401k-plans

Internal Revenue Service, Retirement Plans for Self-Employed People: