Economic Viability of CWW License Holders

Presented by:
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June 24 Meeting of the CWW Licensing Program Advisory Committee

June 24, 2020
“The rules must be designed to reduce the daily and cumulative impacts on southern resident orca whales and consider the economic viability of license holders” (RCW 77.65.620).

- We consider the industry to cease being economically viable when the costs of the rule (direct costs + reduced revenue) approach total annual profits.
- Analysis evaluates costs against the average annual industry profit as a benchmark for economic viability.
Key Questions

1. What is the universe of businesses that may incur costs as a result of the rule?
2. In what ways could the proposed rule options affect CWW license holders?
3. Is the industry likely to be able to adapt to these regulatory requirements?
4. What potential regulatory requirements are more or less likely to affect the ability of CWW license holders to continue to operate?
## Defining the Affected Industry

<table>
<thead>
<tr>
<th>INDUSTRY SECTOR</th>
<th>PRIMARY ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Motorized Whale Watch</td>
<td>Motorized or sailing vessel excursions with the express and primary purpose of viewing whales.</td>
</tr>
<tr>
<td>Kayak Touring</td>
<td>Human-powered group paddling tours, including day trips and multi-day excursions, for sightseeing, coastal exploration, camping, and wildlife viewing.</td>
</tr>
<tr>
<td>Incidental Whale Watch</td>
<td>Motorized or sailing excursions primarily for non-whale viewing purposes including sightseeing, dining cruises, transportation (ferry, water taxi), charter fishing, viewing other wildlife (e.g., birds), etc.</td>
</tr>
</tbody>
</table>
Rule Elements - Primary Motorized Whale Watch

**Number of Boats Viewing SRKW Simultaneously**
- Status quo
- 10
- 5
- 4
- 3
- 2
- 1
- 0

**Days and Hours When SRKW/CWW Activities May Occur**
- Status quo
- SRKW viewing from 9am-5pm only
- No CWW viewing of SRKW in low visibility conditions
- No CWW viewing of SRKW unless WDFW Enforcement and/or SoundWatch are present
- CWW activity from 9am-5pm only

**Time Spent in Vicinity of SRKW**
- Status quo
- 60 minutes
- 30 minutes
- 15 minutes
- 15 minutes if encountered in transit

**Area Closures**
- Close west side of San Juan Island to CWW
- Close other areas (e.g., identified foraging habitat) to CWW when SRKW enter (or cross some threshold near) that area
- WDFW to issue area closures (to CWW when SRKW are present) as appropriate throughout the year
- Close other areas (e.g., identified foraging habitat) to CWW when SRKW are present in the Salish Sea

**Other**
- Require standards of experience or training (e.g., demonstrated ability to distinguish ecotypes) to obtain SRKW viewing endorsement
- Educational requirements for tours
- Require reporting of SRKW presence and location to WDFW and/or SoundWatch
- No marketing or stipulations around marketing of SRKW viewing (e.g., not using photos showing CWW in proximity of SRKW)
- Require use of an automatic identification system to enable effective monitoring and compliance
- Require AIS when SRKW are in the Salish Sea

**Rule element options with relatively low likelihood of affecting economic viability**
1. Dark Blue - due to specific focus on SRKW.
2. Orange - due to implementation under baseline.
3. Pink – due to element affecting minimal portion of activity.
4. Green – due to relatively low costs.
Rule Elements - Kayak Tour Sector

**Kayak Tour Vessel Requirements**

- Status quo (no rules specific to kayak license holders)
- Avoid the path of SRKW, raft-up as close to shore as possible and/or in kelp beds, and position guides as the closest kayak to the SRKW as soon as SRKW are identified
- Stay on shore until SRKW have passed and/or kayaks can maintain 300 yards (400 front and back) from SRKW when SRKW are in the vicinity of the intended route
- Cap the number of kayaks/kayak tours allowed at once in specified areas when SRKW are present in the Salish Sea (or in the vicinity of a key area)
- Close areas to kayak tours when SRKW are in (the vicinity of) that area

**Other**

- No marketing or stipulations around marketing of SRKW viewing (e.g., not using photos showing CWV in proximity of SRKW)
- Require AIS when SRKW are in the Salish Sea
- Require use of an AIS to enable effective monitoring and compliance
- Educational requirements for tours
- Require standards of experience or training (e.g., demonstrated ability to distinguish ecotypes) to obtain SRKW viewing endorsement

**Rule element options that do not affect economic viability**

1. Orange - due to implementation under baseline.
2. Pink – due to element affecting minimal portion of activity.
3. Green – due to relatively low costs.
Types of Costs

Rule element options affect the CWW business in two ways:

• **Generating direct compliance costs**
  • Expenditures the industry would need to make in order to comply with the regulation (e.g., purchasing equipment or increased labor costs).

• **Affecting activity levels**
  • **Reduced Supply**: Regulation restricts the number of whale watching tours that the industry can feasibly offer in a given year (e.g., due to time closures)
  • **Reduced Demand**: Because perceptions of whale watching trip experiences are diminished such that demand for whale watching trips is reduced (e.g., area closures to all CWW activity that might decrease the likelihood of seeing a whale at all).
## Industry Financial Profile

<table>
<thead>
<tr>
<th>INDUSTRY SECTOR</th>
<th>NUMBER OF COMPANIES IN REVENUE ESTIMATE</th>
<th>COMBINED RIDERSHIP (2019)</th>
<th>COMBINED ANNUAL REVENUE</th>
<th>PROFIT (RANGE)</th>
<th>ESTIMATED SECTOR-WIDE ANNUAL PROFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Motorized Whale Watch (Mainland)</td>
<td>3 (estimated)</td>
<td>102,300</td>
<td>$11,000,000 - $20,000,000</td>
<td>20% - 30%</td>
<td>$2,200,000 - $6,000,000</td>
</tr>
<tr>
<td>Primary Motorized Whale Watch (San Juan Islands)</td>
<td>10-12</td>
<td>43,150 (Average 2015-2019)</td>
<td>$8,900,000</td>
<td>10% - 20%</td>
<td>$890,000 - $1,800,000</td>
</tr>
<tr>
<td>Kayak Touring</td>
<td>11-13</td>
<td>Unknown (Average 2015-2019)</td>
<td>$3,200,000</td>
<td>15% - 30%</td>
<td>$320,000 - $630,000</td>
</tr>
</tbody>
</table>
Summary of Results - Primary Motorized Whale Watch

**Number of Boats Viewing SRKW Simultaneously**
- Status quo
- 10
- 5
- 4
- 3
- 2
- 1
- 0

**Days and Hours When SRKW/CWW May Occur**
- Status quo
- 9am-5pm CWW viewing of SRKW only
- No SRKW viewing of SRKW in low visibility conditions
- No CWW viewing of SRKW unless WDFW Enforcement and/or SoundWatch are present
- No CWW viewing of SRKW during a specified annual window (e.g., April-June)
- 9am-5pm CWW only

**Time Spent in Vicinity of SRKW**
- Status quo
- 60 minutes
- 30 minutes
- 15 minutes
- 15 minutes if encountered in transit

**Area Closures**
- Status quo
- Close west side of San Juan Island
- Close other areas (e.g., identified foraging habitat) to CWW when SRKW enter (or cross some threshold near) that area
- Close other areas to CWW when SRKW are present in the Salish Sea
- WDFW to set area closures (to CWW when SRKW are present) as appropriate throughout the year
- Close other areas to CWW when SRKW are present in the Salish Sea annually

**Other**
- Require standards of experience or training to obtain SRKW viewing endorsement
- Educational requirements
- Require reporting of SRKW presence and location to WDFW and/or SoundWatch
- No marketing or stipulations around marketing of SRKW viewing (e.g., not using photos showing CWW in proximity of SRKW)
- Require use of an automatic identification system to enable effective monitoring and compliance
- Require AIS when SRKW are in the Salish Sea

**Note:** Green shading indicates rule elements for which potential costs do not threaten economic viability. As shading moves toward red, there is an increasing risk of economic viability impacts under certain conditions, or depending on the specifics of the regulation.
## Primary Whale Watch - AIS

<table>
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<tr>
<th>RULE ELEMENT</th>
<th>POTENTIAL COST</th>
<th>ECONOMIC VIABILITY CONCERN FOR SECTOR</th>
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<tbody>
<tr>
<td>AIS</td>
<td>Cost incurred by 50 percent of businesses. $25,000 sector-wide ($3,400 per business) in the first year and $4,700 ($625 per business) annually thereafter.</td>
<td><strong>No.</strong> Assuming costs are incurred in an average year. <strong>Yes.</strong> If costs are incurred prior to financial recovery from COVID-19 pandemic.</td>
</tr>
</tbody>
</table>
## Primary Whale Watch - Area Closures

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<th>POTENTIAL COST</th>
<th>ECONOMIC VIABILITY CONCERN?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Closures (not based on SRKW immediate presence)</td>
<td><strong>High.</strong> Long-term closures of areas unrelated to SRKW immediate presence limits ability of CWW operators to find whales to view. Could result in reduced ridership, or need to take passengers out again at no cost who were not able to view whales.</td>
<td><strong>Yes.</strong></td>
</tr>
</tbody>
</table>
Summary of Results - Kayak Tour Sector

Kayak Tour Vessel Requirements

- Status quo (no rules specific to kayak license holders)
- Avoid the path of SRKW, raft-up as close to shore as possible and/or in kelp beds, and position guides as the closest kayak to the SRKW as soon as SRKW are identified
- Stay on shore until SRKW have passed and/or kayaks can maintain 300 yards (400 front and back) from SRKW when SRKW are in the vicinity of the intended route
- Cap the number of kayaks/kayak tours allowed at once in specified areas when SRKW are present in the Salish Sea (or in the vicinity of a key area)
- Close areas to kayak tours when SRKW are in (the vicinity of) that area

Other

- No marketing or stipulations around marketing of SRKW viewing (e.g. not using photos showing CW in proximity of SRKW)
- Require AIS when SRKW are in the Salish Sea
- Require use of an AIS
- Educational requirements for tours
- Require standards of experience or training (e.g. demonstrated ability to distinguish ecotypes) to obtain SRKW viewing endorsement

Note: Green shading indicates rule elements for which potential costs do not threaten economic viability. As shading moves toward red, there is an increasing risk of economic viability impacts under certain conditions, or depending on the specifics of the regulation.
**Kayak Sector - AIS**

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<th>ECONOMIC VIABILITY CONCERN FOR SECTOR</th>
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</thead>
<tbody>
<tr>
<td>AIS</td>
<td>Detailed cost information has not been compiled. Initial research suggests unit costs may be less than AIS unit costs for motorized vessels.</td>
<td>Yes. Technology is not typically used on kayaks, and cost information was not immediately available. Potential effects on viability dependent on whether there are appropriate technologies for kayaks.</td>
</tr>
</tbody>
</table>
## Kayak Sector - Education/Standards of Experience

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<th>ECONOMIC VIABILITY CONCERN FOR SECTOR</th>
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</thead>
<tbody>
<tr>
<td>Standards of experience</td>
<td>At maximum, could require hiring of additional staff and curriculum development. At minimum, may require training of staff at relatively low cost.</td>
<td>Yes. If regulatory compliance requires hiring of additional staff.</td>
</tr>
<tr>
<td>Educational requirements</td>
<td></td>
<td>No. If regulatory compliance does not require hiring additional staff.</td>
</tr>
</tbody>
</table>
Summary of Considerations

- Operational costs related to AIS (Primary Whale Watch and Kayak Tour) and elements that may require new staff (Kayak Tour) may threaten economic viability depending on specifics of rule and timing.

- Economic viability most likely to be a concern in terms of changes in activity levels when:
  - A rule option limits all CWW activity, rather than being focused on limiting viewing of SRKW; or
  - A rule option creates permanent or long-term area closures that are not tied to the physical presence of SRKW.

- Mitigation
  - Outreach
  - Timing of Requirements
Questions?

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