

MEMBER STATES

ALASKA  
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OREGON  
WASHINGTON

# PACIFIC MARINE FISHERIES COMMISSION

342 STATE OFFICE BUILDING • 1400 S. W. FIFTH AVENUE

PORTLAND, OREGON 97201

PHONE (503) 229-5840

EXECUTIVE DIRECTOR  
JOHN P. HARVILLE

TREASURER  
G. L. FISHER

AGENDA ITEM 10  
May 1977 meeting

May 6, 1977

TO: John W. McKean, Chairman, Pacific Fishery Management Council  
FROM: John P. Harville, Executive Director *John P. Harville*  
RE: Review of factors concerning "joint venture" fishing operations within the fishery conservation zone.

On the basis of what I have learned from discussions before the North Pacific and Pacific Councils, supplemented by relevant information from national sources, I thought it would be useful to review for you and other Council members what I consider to be major factors in this issue. Our decisions here can have very far-reaching importance in terms of precedents for future developments and actions. I applaud the decision to defer action on the Bellingham operation to permit full evaluation by Charlie Fullerton's Subcommittee; however, it is conceivable that earlier action may be required unless the Secretary of Commerce can extend the seven-day period for Council review.

I spoke to most of the following points during Tuesday's discussion (5/3/77) with respect to the Bellingham Cold Storage - Soviet joint venture and the (Alaskan) Davenny - KMIDC Korean arrangements. I think it useful to review four areas: factors in common to both proposals, significant differences between these two before our Councils; Congressional concerns; a note on action by the North Pacific Council.

A. Factors in common to both proposals

1. Both have been judged legal under present laws, and:
  - a. require FCMA permits for foreign flag vessels to receive fish within the 200 mile Fishery Conservation Zone;
  - b. since catch will be taken by U.S. fishermen, that catch is not chargeable to the foreign quota but rather comes out of the share reserved for U.S. harvest;
  - c. since species concerned presently are regulated under Preliminary Management Plans, there are no restrictions on harvest levels for domestic fishermen--no quota limiting U.S. catch for any purpose, including transfer to foreign flag processing vessels.

cc: All Council, AP, SSC.

B. Some important differences between the Alaska-Korea and the Bellingham-Soviet proposals

Bellingham-Soviet

Davenny-KMIDC (Korea)

1. U.S. share of total allowable catch.

Hake: U.S. was allocated 6.8 thousand metric tons out of the 150 thousand metric ton TAC for 1977; Bellingham-Soviet proposal known and included in this estimate. (Bellingham quoted possible harvest of 300 tons per day.)

Pollack: U.S. was allocated one thousand metric tons out of the 150 thousand metric ton TAC for 1977; KMIDC proposal was not then in hand, thus not allowed for. (Proposal projects 600 MT production per day; contract calls for up to 130,000 MT.)

2. Profit distribution.

This is a 50% U.S. owned joint venture, projecting ownership of the processed product by the joint venture corporation. Thus 50% of profits from processing would return to U.S. stockholders.

Not a joint venture; rather a contracted sale of fresh fish by U.S. fishing boats to a Korean-owned processor. All profits from processing would go to foreign investors.

3. Availability of U.S. shoreside processing for groundfish.

Shoreside processing capabilities exist in Pacific Northwest, though perhaps not adequate. Therefore threat to capital investment appears less.

No shoreside processing facilities presently in Alaska; U.S. venture capital urgently needed to develop them.

C. Congressional concerns

1. Merchant Marine and Fisheries Committee hearings.

Last fall Congressman Leggett held hearings on the general problem of foreign investments in U.S. fishing operations. I did not attend these hearings or see a full transcript. However, the general impression was one of considerable concern for any possible circumvention of the intent of FCMA (P.L. 94-265), but also uncertainty as to how to control these matters. The Bellingham Cold Storage - Soviet joint venture was discussed, and judged to be legal within present provisions of the law.

2. Recent comments by Congressman Leggett.

As a part of my testimony at Congressman Leggett's oversight hearings in San Francisco April 14, I noted our concern for this kind of foreign participation, in U.S. harvests as follows:

*"In addition to this concern for foreign ownership of domestic fishing vessels, another area which must be considered involves arrangements whereby fish caught by U.S. fishermen within the United States Fishery Conservation Zone might be transferred through joint venture or other business agreement to a foreign processing vessel operating either inside or beyond the Fishery Conservation Zone. Joint venture agreements of this type already have been concluded or are in process of arrangement*

John W. McKean  
May 6, 1977

2. Both arrangements provide opportunity for U.S. fishermen to harvest species presently not saleable in significant quantity to U.S. buyers, and to sell them at a profit to foreign buyers. (Note that there are some precedents for this in West Coast sales of salmon, herring, sea urchin, lamprey.)
3. Both make use of foreign venture capital in operations for which domestic dollars have not been readily available. (Note that joint ventures are officially encouraged by the U.S. government, and that U.S. investors are thus involved worldwide.)
4. Both arrangements present major economic hazards and difficulties for U.S. processors, who point out that:
  - a. U.S. shore-based plants cannot very well compete in view of
    - 1) enormous wage differentials (estimated at 30-60¢ per hour aboard Korean vessels; more than \$6.00 per hour for Alaska workers ashore);
    - 2) environmental, safety, and health protection requirements which must be met at high cost by U.S. shore-based plants, but which are not applicable to foreign floating factories (OSHA, EPA, FDA, etc.).
  - b. Private venture capital will be difficult to obtain for shore facility development if there is major risk that foreign competition will draw off the available resources. (New England Fish Company indicated that a projected \$2 million investment in a Kodiak facility becomes uncertain in view of the Korean proposal which could divert available harvest to a foreign processor.)
5. Both arrangements will funnel some of the benefits envisioned under FCMA to foreign nations and investors rather than U.S. These include
  - a. the protein product itself, which has ever-increasing importance to a growing world population,
  - b. profits accruing from processing of the raw product, including both jobs and dollars.
6. Both arrangements raise prospects of serious international competition--even of "fish wars", since any major diversion of U.S.-caught fish to one foreign nation would result in reduction of future foreign allocations to all nations. (Example: 1977 TAC for pollock off Alaska is 150 thousand metric tons, of which only 1 is remanded for U.S. harvest, 149 allocated among foreign nations. The RA Davenny - KMIDC (Korea) agreement projected a U.S. harvest of 130 thousand metric tons, all to go under contract to Korea (see attached clippings from two airlines trade papers). Thus if the TAC remained at the 150 level in 1978, the amount to be divided among other nations would drop from 149 to 20!
7. Both arrangements could divert tax and other revenues from the States through bypass of landing laws.

*between United States firms and U.S.S.R. enterprises in the Pacific Northwest and Korean operations off Alaska. In both these instances, the concern is not with foreign ownership of fishing vessels, but rather for transfer of product from U.S.-operated vessels to a foreign factory ship. This poses management problems in accounting for the catch and including the harvest in exploitation and stock assessment work. It also raises the question of whether such harvests should be counted in the quota assigned the foreign nation. Perhaps the most serious problem to be addressed will be the impact upon U.S. processors, who foresee a flow of product they might wish to receive going instead to foreign processor ships. On the other side of the argument is the desire of U.S. fishermen to harvest a product for which they presently have no market with U.S. processors, and to sell it at a profit. Thus U.S. fishing vessels and fishermen would benefit, but shoreside installations and processors would not."*

In commenting on my testimony, Bob Leggett indicated that it was the intent of his Committee that through the FCMA we would "create multiplication factors of fish GNP by production and sale of the fish in the United States." He observed that this multiplication would be lost if the fish caught were sold foreign through hybridized arrangements. He also noted the intent to promote use of fish in the diets and reduce hypertension by moving people away from excessive use of red meat. He further noted that the Bellingham proposal had been reviewed by his Committee and considered to be within the provisions of the law. He emphasized the need for the U.S. to increase its own utilization of these underutilized stocks through further research and development.

3. The AuCoin-Studds Bill (H.R. 2654).

On January 27, 1977, Oregon Congressman Les AuCoin introduced H.R. 2654, co-sponsored by Congressman Gerry Studds of Massachusetts. The original intent of this legislation was to limit the extent of foreign investment in fishing vessel operation (in the same manner that foreign investment is limited in coastwise shipping operations) by requiring at least 75% U.S. ownership of firms so engaged. Mr. AuCoin's speech in support of his bill cited the growing levels of foreign investment in U.S. fishing operations, and his concern that this could circumvent the intent of CMCA and divert benefits intended for the U.S. fishing industry to foreign holdings.

Congressman AuCoin has circulated copies of his bill widely and solicited recommendations from agencies and all levels of the fishing industry. You will recall that Charlie Fullerton's Subcommittee recommended its endorsement.

Mr. AuCoin subsequently has circulated a draft revision of the original bill which would incorporate provisions to control joint venture and related arrangements such as are discussed in this review. Essentially this draft proposed requiring Secretary of Commerce approval of any agreement with foreign processors or receivers having a duration greater than six months. Applications would be subject to Council review and recommendations to the Secretary, and the Secretary would take those recommendations into consideration in acting on the application. The Secretary also would prepare an annual report to the Congress on such approvals, on disposition of fish affected, and on present and probable future impact on U.S. fishing operations and the economy.

D. Action by the North Pacific Council.

At two successive meetings, the North Pacific Council heard public testimony and engaged in its own discussions with respect to the Davenny-KMIDC proposal. Mr. Davenny and spokesmen for fishermen supported this arrangement as a potential source of market and income for the fishermen. Mr. Davenny quoted prices for pollack of 5¢/lb plus 1¢ bonus the first year.

Opponents represented views of New England Fish Company and Peter Pan, expressing the processors' concerns for price competition, effects on availability of capital, and diversion of potential domestic processing profits to foreign interests. Spokesmen for New England Fish Company appeared willing to accept existence of such foreign contract or joint venture arrangements if they could be assured (by change in the law if necessary) a priority for delivery of product up to the limit of their processing capability. The essence of their argument was that U.S. processors should be accorded priority access to landed product analogous to the priority accorded fishermen to harvest the catch.

Following extensive and often heated debate, the North Pacific Council voted (I believe by 6-2 margin) to disapprove at this time applications for permits by 6 Korean processing and transport vessels for operation in support of this project during 1977. Prime reasons for this action to disapprove were:

1. Unwillingness to exceed the 1977 TAC for pollack (150 thousand metric tons), and recognition that any success in this venture would do so since only 1 thousand metric tons was allocated U.S. fishermen, and a 600 metric ton daily harvest rate was proposed.
2. Resistance to jeopardizing potential development of U.S. processing facilities and capabilities through injection of uncertainty concerning future availability of fish (New England Fish Company proposes a \$2 million modern plant in Kodiak; Peter Pan and other domestic processors also indicate development plans.)
3. Concern that this major diversion of fish to one country might escalate international competition and even a "fish war"; therefore belief that means of reasonable control should be developed in advance of any such major allocations.

This action by the Council was accompanied by stern admonitions to U.S. processors to get on with development of U.S. shoreside processing capabilities. Inherent was the implication that if these were not forthcoming, future Council actions would be unsympathetic with their arguments and concerns.

I support and spoke strongly for these North Pacific Council actions. As noted under B., p. 3, however, there are significant areas of difference in the Bellingham-Soviet proposal.

Attachment: Airline clippings and Oregonian editorial favoring Bellingham-Soviet proposal

cc Elmer Rasmuson, Chairman, North Pacific Fishery Management Council  
Jim H. Branson, Executive Director, North Pacific Fishery Management Council  
Lorry M. Nakatsu, Executive Director, Pacific Fishery Management Council

★★★

**ANCHORAGE**—An Anchorage-based exporting firm is developing a new fisheries market which the company, R.A. Davenny and Associates, says may lead to a \$20 million industry in the first year for Alaskan fishermen. The Alaskan firm plans to sell pollock, an Alaskan ground fish, to the Korean Marine Industry Development Corp. The Korean firm is able to handle 600 tons of ground fish a day, and approximately 30 boats would be required to fill the need. Davenny and Associates is also involved with timber and logging operations on Kodiak Island and in Nenana. AT 0318.

★★★

OREGONIAN, MAY 5, 1977

## Hake proposal okay

It would appear that no long-range harm would result from trying a proposal which would let West Coast fishermen net hake within the 200-mile offshore limit and sell the fish to Russian-owned processing ship.

But it would have to be an arrangement which could be speedily rescinded if subsequent developments within the operation appeared to undermine U. S. fish processors and fishermen.

The hake proposal has been made by U.S.-U.S.S.R. Marine Resources Co., a firm established last year with a branch of the Russian government and Bellingham Cold Storage Co. Bellingham, Wash., as partners. If approved by the U. S. Government, it will be the first joint venture on the West Coast between U. S. and foreign fishing interests under the 1978 act which extended U. S. jurisdiction to 200 miles offshore.

West Coast hake are not utilized in the United States, but the fish are used extensively in the diets of some foreign nations. Catches under the proposed agreement would be in addition to the 123,000 tons of hake allowed foreign ships within the 200-mile limit during 1977.

Proponents of the proposal contend that the operation would not deplete the hake resources along the Oregon and Washington coasts, would not be competing with American fishermen and packers, and would be providing work for about 20 U. S. fishing boats.

Opponents believe the plan would be a "foot in the door" for other foreign fishing operations within the 200-mile limit, that many salmon and other types of American market fish would be caught in the nets and processed, and that the operation would delay the American development of hake processing and marketing.

If the plan is approved, those opposing want strict controls applied, and American observers on the Russian processing ship to insure that large quantities of other types of fish do not come in with the hake.

Some also oppose the proposal on grounds it would result in fish processing ships from other nations arranging similar operations.

If all or any of the potential negative points should develop, the arrangement for joint fishing with foreign nations could be rescinded. But as stands now, hake is not fished and processed by Americans on the West Coast. It is worth a

ALASKA ON ALASKA, Vol. 4, No. 13, April 25, 1977

## Pollock Fishery Could Become Good Business for Alaska

**THE RECENTLY-ENACTED 200-MILE FISHING LIMIT** may produce a major change in fishing habits of some Alaskans which could result in a multi-million dollar business for the Kodiak area. As a result of Korean fishermen being banned from their traditional pollock fishing grounds off the Russian coasts in the north Pacific, the country is turning to Alaska fishermen. A five-year contract was recently signed by the Korea Marine Industry Development Corp. and R.A. Davenny and Associates, and Anchorage import-export firm. The agreement calls for the firm to provide an annual catch of 130,000 tons of the bottom-feeding pollock, and new procedures and equipment are being tested in Kodiak waters. According to KMIDC representative S.J. Shum, the industry could add up to \$20 million dollars each year to the Kodiak economy.

**NORTH PACIFIC FISHING VESSEL OWNERS ASSOCIATION**

BUILDING C-3, ROOM 133  
FISHERMENS TERMINAL  
SEATTLE, WASHINGTON 98119

May 11, 1977

300-08

Ms. Juanita Kreps  
Secretary of Commerce  
Department of Commerce  
Washington, D.C.

RE: Joint fishing ventures with  
foreign nationals.

Dear Ms. Kreps:

The North Pacific Fishing Vessel Owners Association represents the major domestic production of King and Tanner crab in the Bering Sea. Our modern vessels - ranging in size from 86' to 135' - are fully capable of satisfying some of the foreign protein needs as demonstrated by the solicitations in the past two years from four different foreign fishery interests to combine in joint fishing ventures. We have not reached any agreement, mainly because our vessels are currently quite fully utilized, and because of other concerns such as interim landings in the U.S. and possible sales in the domestic market of a highly subsidized product, and lack of specifics as to the incidental catches of other underutilized or unutilized species.

We appreciate that the growth of the domestic fishing industry could be greatly stimulated through such joint ventures by satisfying the overseas demand for ocean protein through domestic fishing effort on available stock surpluses, but under firm and knowledgeable management.

However, until such time as a well-planned prototype joint venture is mounted - under close surveillance - the real or imagined merits or demerits of such an operation remain speculative, reflecting more heat than light.

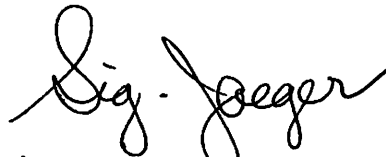
We are concerned that hasty or ill-advised actions may close doors that P.L. 94-265 has opened. A key ingredient for negotiating purposes is the provision for preemptive allocation of resources to domestic fishermen, regardless to whom delivered. The full value of this preferential will not be appreciated except in its demonstrated and controlled exercise.

We strongly support the concept of joint ventures for satisfying an overseas demand, but channeled through growing domestic capabilities in a competitive manner, rather than satisfying the said demand with a continuing foreign catching effort within our 200 mile zone. It is eminently preferable that resource surpluses be channeled through domestic effort, which in the long run will be a more efficient method than distant water fishing fleets travelling to our coasts.

Ms. Juanita Kreps,  
Secretary of Commerce  
Washington, D.C.  
May 11, 1977  
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The vision of an all-domestic fishing fleet catching most or all of the raw product available off our coasts seems now to be more real than pure vision. Well planned joint ventures offers a method toward this latent reality, and should have the opportunity and the stimulus to develop.

Respectfully and sincerely yours,

A handwritten signature in cursive script that reads "Sig Jaeger". The signature is written in dark ink and is positioned above the typed name.

Sig Jaeger, Manager

SJ/lh





707 "A" Street, Suite 206  
Anchorage, Alaska 99501

## University of Alaska

3211 Providence Drive  
Anchorage, Alaska 99504

May 18, 1977

Charles H. Meacham, Director  
International Fisheries and External Affairs  
Office of the Governor  
Pouch A  
Juneau, Alaska 99811

Dear Chuck,

This letter is a proposed Letter of Agreement between the Institute of Social and Economic Research (ISER) and International Fisheries and External Affairs, Office of the Governor. It adheres to the general terms of the Master Services Agreement currently in effect between the University of Alaska and the State of Alaska. Attaching your signature in the space provided below will effectively consummate the agreement. Changes you may wish to make should be properly initialed and returned to me for my counterinitialing.

### Scope of Services

At your request, we are reviewing the record of the Northern Pacific Fishery Management Council and related documents concerning the policy issues involved in the U.S. catching fleet selling bottomfish to foreign processors or U.S.-foreign joint venture processors on the high seas outside the 3-mile limit. We will also address and evaluate the various arguments for and against such agreements from an objective economic viewpoint, and identify the factors which can be used to guide state and Management Council policy in this matter. The final report will be in letter form addressed to you.

### Personnel

The tasks above will be performed by ISER economists Arlon R. Tussing and Michael J. Scott. Both are well acquainted with microeconomic theory and issues in fisheries economics. Dr. Tussing has published widely on Alaskan economic issues and has edited a major economic work concerning Alaska's fisheries. Dr. Scott is a natural resources economist who carries major research responsibility in ISER's econometric modeling effort and applied price theory research in Alaska. He has done work on fisheries-related studies in the Pacific Northwest.

UNIVERSITY OF ALASKA

Charles H. Meacham

May 18, 1977

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Budget

Consistent with the Master Services Agreement, all ISER invoices will be on a cost reimbursable basis. Labor charges will be all direct labor charges plus fringe benefits. Related expenses such as travel, per diem, and communications will also be on a cost reimbursable basis, subject to the normal allowances recognized by the state. Personnel costs will not exceed Seven Hundred Fifty Dollars (\$750.00) and total costs, not including travel and related expenses, will not exceed One Thousand Dollars (\$1,000.00).


Duration of Agreement

All services to be provided pursuant to this agreement will be completed and a final report submitted to you on or before May 25, 1977, provided the agreement is put into effect not later than May 18, 1977. The final report will contain the findings of each task performed, as described above.

If you have questions or suggested changes regarding this agreement, feel free to call me.

With best regards.

Sincerely,

  
Lee Gorsuch  
Director


APPROVED:

  
Charles H. Meacham, Director

Date: May 18, 1977

cc: Lu  
Tussing  
Scott

LG:MS:ds



## University of Alaska

3211 Providence Drive  
Anchorage, Alaska 99504

707 "A" Street, Suite 206  
Anchorage, Alaska 99501

May 25, 1977

Charles H. Meacham, Director  
International Fisheries and External Affairs  
Office of the Governor  
Pouch A  
Juneau, Alaska 99811

Dear Chuck:

At your request, we have reviewed the record of the Northern Pacific Fishery Management Council Sixth Plenary Session on April 28, 1977, related documents, and correspondence concerning the policy issues involved in the U.S. sales of bottomfish not currently utilized by the U.S. to foreign-owned or joint venture interests.

It appears that William C. Brewer, General Counsel for NOAA, has ruled that once a foreign flag processing vessel has obtained a license to operate in the 200-mile zone, there is no restriction on the fish this vessel may process. Since the Koreans do have a fishing effort in the Gulf of Alaska, and at least one Korean processing vessel not in the current controversy does have a valid license for 1977, the council's action in denying licenses for 6 other vessels has doubtful impact on plans of KMIDC to purchase U.S.-caught fish on the high seas. However, as noted by the NPMFC in denying the permits, questions of policy here are at least as important as the legal questions, since the law can be changed if found contrary to desired policy, and since NPMFC is deciding upon Fisheries Management Plan for 1978. What would the effect be of the policy of selling U.S.-caught fish to foreign processors?

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### Analysis

To resolve the question, we have to agree on a set of assumptions concerning the fishery. For the analysis reported below, we initially assume the following stringent conditions to hold true: 1) that foreign trawl vessels currently are characterized by greater productivity and lower cost per unit of catch than American vessels; 2) that foreign processing vessels and foreign shore facilities in combination can process and deliver fish to the American market at lower cost than can American shore-based facilities, and U.S.-caught fish are delivered only to foreign processors; 3) that the total allowable catch for each species is not subject to change; 4) that a potential U.S. market for the fish exists, and the processed fish are sold in the United States; 5) that U.S. processors want to enter this market.

Even under these rather stringent conditions, we think it is possible under the Preliminary Management Plan to permit a U.S.-based fishery to catch and sell bottomfish to foreign processors, with advantages accruing to some of the parties involved. Relaxation of some of the conditions permits additional advantages to accrue. The description of the Gulf of Alaska trawl fishery in the Preliminary Management Plan states that among the cost advantages currently enjoyed by foreign fleets in this fishery is that foreign governments subsidized some of the costs required to develop harvesting and processing methodology. A sensible way for the American fleet to acquire the necessary knowledge of successful harvesting techniques is to go into a joint venture with the more experienced foreign operators.

It appears to us, based on our analysis, that the following short run economic effects would appear, should the sales be approved: 1) There would be increased employment and income to the members of the American fleet who can more fully utilize their vessels and learn new techniques. 2) There would be no additional jobs in U.S. processing. 3) There would be no additional income earned from processing, freezing, or raw fish taxes by U.S. governments. There would be some additional income taxes, based on higher U.S. resident fishermen's incomes. 4) If TAC were not allowed to change, it appears that foreign trawl fishery quotas would have to be cut. In this case, it appears that U.S. fishermen gain jobs and income. U.S. processors appear to lose an opportunity to expand, since foreign

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processors selling processed fish in the U.S. at the same price as U.S. processors could, because of their lower processing costs, afford to outbid the U.S. processors for the raw product. Potential income appears to be lost to U.S. taxing jurisdictions. Other foreign countries' fleets appear to lose since their quotas are cut. Even under these most stringent conditions, U.S. fishermen gain the additional income from selling new species to foreigners and acquire new knowledge. U.S. processors lose an opportunity to expand; however, their current investments are not harmed. U.S. governmental units do not suffer a loss in tax base; they do not have an opportunity to expand. Foreign countries do lose part of their quota if TAC remains unchanged. U.S. consumers gain an additional source of protein.

These, however, are the conditions least favorable to joint venture agreements to sell bottomfish to foreign processors. Relaxation of two of the conditions listed above, plus some appropriate market protection, permits all parties to be no worse off than if the sales were prohibited, and permits almost all the parties to be better off economically. The first condition to be relaxed is that the fish are forever dedicated to foreign processors--either legally or because of competitive advantage. The Council and the Secretary of Commerce can adopt the position that licenses be issued to sell to foreign processors, with the clear statement of policy that licenses or permits for such arrangements are conditional upon U.S. processors being unable or unavailable to take the U.S. catch. Then, as U.S. processors build their facilities, they are assured of their preferential treatment regarding U.S. catch, which will provide as much incentive to develop U.S. processing capability as forbidding foreign sales. However, there is additional benefit to U.S. processors: the domestic fleet will have learned foreign harvest techniques by virtue of joint venture agreements previously in force, and will have gained experience in the trawl fishery. From the U.S. processors' point of view, this should be a superior financial risk to that of operating with a fleet which is inexperienced and unequipped for the trawl fishery, which would be the effect on the U.S. fleet of forbidding foreign sales. The U.S. fishing fleet gains experience and income as it did before. U.S. consumers gain the same additional source of protein. The shore economy gains jobs. U.S. state and local governments gain the increased revenues associated with fish processing when the U.S. processing capacity comes on line. Foreign processors gain what profits are available in the meantime, which is better than they would do under prohibition of sales.

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Other foreign countries not party to the sales will lose fish and profits if only the one condition is relaxed, because it appears their quotas would still be cut. However, the TAC for pollock in the Gulf of Alaska, where the question has come up, is particularly conservative. The 150,000 mt TAC in the 1977 Preliminary Management Plan was deliberately set below the lower end of the range of maximum sustained yield of 168,000 - 338,000 mt. Further, pollock production in the Gulf of Alaska, according to NMFS, never exceeded 68,000 mt even with free entry. Thus, in the practical case at hand: 1) it would be possible to increase TAC by a modest amount and remain in the lower end of the range of maximum sustained yield, to the economic benefit of all concerned; 2) even if the TAC is left unchanged, it appears that other foreign powers may not be able to catch their quota anyway, except by nearly doubling their previous success. Thus, cutting their quotas modestly does not necessarily mean cutting into a customary yield from a given fishery. Also, in the event that the U.S. market for processed pollock is really large enough to absorb most of the current TAC, the TAC would have to be increased or the foreign quota cut in any event. In summary, for at least the Gulf of Alaska pollock fishery, the U.S. fleet current capacity to harvest fish to sell to a foreign processor (30,000 mt in 1977) does not appear to threaten either the fishery or foreign quotas. Problems encountered in expanding the U.S. catch later would be encountered in any case.

#### Objections to Selling Bottomfish to Foreign Processors

We now turn to the specific objections raised with respect to the pollock sales at the April 28 meeting of the NPMFC, and which we expect will arise in all cases of this type.

1. Precedents will be established by permitting this sale of U.S.-caught fish to foreign processors which will permit foreigners to purchase other species in competition with U.S. processors, presumably including crab and salmon.

Comment: By carefully limiting the sale through a clear statement of policy of preference for U.S. processors, no precedent is established for fully utilized or other species.

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2. The thrust of the Fishery Conservation and Management Act of 1976 is to develop the U.S. fishery for the benefit of U.S. employment, food supply, and government revenue. Sales to foreign processors discourage this growth.

Comment: As shown above, this need not be true if foreign sale authorizations are made conditional on U.S. processing capability.

3. U.S. processors cannot compete with foreign processors who have lower labor costs, and who do not have to worry about EPA, OSHA, and FDA regulations.

Comment: Besides the conditional foreign sales quota on raw fish, U.S. processors can be given special protection in U.S. markets through tariffs or foreign exporter quotas and sanitary regulations on imported fish products. This is no reason to deny interim sales to foreigners.

4. U.S. bankers cannot be persuaded to invest in new U.S. shore processing capacity without guarantees of enough catch to keep the plant profitable. Dedication of catch to foreign processors discourages this investment.

Comment: Provided that future sales to U.S. processors are guaranteed, interim sales to foreigners will not result in financial markets being reluctant to lend money to fish processors, if the U.S. processed fish market is otherwise profitable. Further, interim sales give the U.S. fleet an early guaranteed market, and this will make it easier for the U.S. fleet to finance any necessary refitting for bottomfish trawling. Finally, interim trawling by the U.S. fleet means that new U.S. processors will be dealing with an established fleet, experienced in Gulf of Alaska bottomfish, which should enhance the prospects of a firm supply of raw fish more than would a brand-new, inexperienced fleet.

5. If U.S. vessels expand their catch, then TAC will be exceeded, and the quotas of foreign nations must be cut. This will create chaos in the fishery and economic warfare.

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Comment: There is considerable slack in the 1977 TAC, compared to the MSY range and proposed catch for 1977, as shown in the discussion above. Beyond this permissible increase in TAC, it is likely in any event that NPMFC will have to get into the business of setting U.S. quotas at an early date, since it is clear U.S. processors under preferential treatment with respect to raw materials and U.S. markets can expand in a short period of time to absorb much of current foreign quotas. It is even possible, given preferential treatment with respect to raw fish, that U.S. processors could penetrate some foreign markets at sufficiently high product prices.

6. There would be substantial bycatch of other species, notably halibut. The implication is that this would damage the halibut fishery.

Comment: As long as the low value bottomfish are caught, some halibut will be caught. This is independent of the party to whom the fish are sold, and should have no effect on sales policy.

7. There are no current controls on U.S. trawl fisheries, including no area closures, time closures, or gear restrictions. Denial of the foreign licenses to buy U.S.-caught fish will delay U.S. entry into the fishery.

Comment: In view of the anticipated catching experience and capacity of the U.S. fleet to gear up for the coming year, there is not likely to be immediate damage to the trawl fishery, even without restrictions. Area and gear regulations for U.S. trawlers will have to be written this year anyway, if U.S. processing expands to process low value bottomfish. Lack of regulation this year may provide some additional incentive to the infant U.S. trawl industry.

8. The anticipated sales arrangements would evade U.S. labor, tax, and insurance laws.

Comment: U.S.-owned fishing boats should still be subject to U.S. labor and insurance laws. U.S. residents



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would still be subject to U.S. and state income taxes. Further, although sales to foreigners avoid gross sales taxes on the amount sold, this represents no loss to Alaska or any other state in the short run, compared to a situation where no sales take place. In the longer run, making sales to foreigners conditional on U.S. processing capability means that any fish which can be processed by the U.S. will be sold to U.S. processors, and these will pay normal gross sales, income, and property taxes. Any additional sales over this amount to foreign processors would not have been sold or caught in any case, if such sales were not approved, so taxes not paid in that case represent no loss to the U.S. as long as the fishery is not harmed.

9. It will be difficult economically and politically to call back quotas, once allocated to foreign processors.

Comment: If licenses are issued with a clear understanding of all parties to the "take-back" nature of the authorization to sell, the actual taking back of U.S. production to sell to U.S. processors will come as no surprise to anyone, minimizing political problems, and capital markets will be able to properly evaluate the risks.

10. Foreign processing evades U.S. health and quality standards, putting U.S. competitors at a disadvantage.

Comment: Assuming that the product is sold in the U.S., it should be fairly simple to restrict imports that do not meet U.S. health or product quality standards. If there is no U.S. market for processed bottomfish, and one cannot be developed, U.S. processors would not survive anyway, no matter what their protection from foreign competition for raw fish. Tariff protection could be made available to protect U.S. markets from foreign-caught, foreign-processed fish, if necessary.

In summary, approving contracts to sell U.S.-caught bottomfish with the take-back provisions noted would appear to be in the best economic interests of the Alaskan fleet, U.S. processors, and Korean processors in the short and long run. If the TAC is relaxed for 1977, and provision is made for progressive expansion of U.S. processing interests in the trawl fishery, damage to foreign catching interests can be minimized (or in the case of the Gulf of Alaska pollock fishery, eliminated).

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Finally, some attention ought to be devoted to Alaska's and the NPMFC position toward sales of the type recently turned down. It seems to us that the state position preferring in-state processing, then U.S. processing, then foreign processing contains a correct rank order with respect to beneficial economic impact on Alaska. It appears to us that further expansion of the Alaska-based fleet to sell fish only to out-of-state processors could at some future time require the expansion of harbor facilities at state expense not commensurate with increases in state revenues. The state should be alert to this possibility. The Council ought to be alert to the possibility that, contrary to processor expectations, it may not be possible to develop a market for processed fish in the U.S. which any domestic processor can exploit at a profit because of high operating costs. Consequently, the NPMFC should be cautioned against locking itself into a position where no domestic processor exists, and the U.S. fleet is prohibited from selling to foreign processors. This case would perpetuate the strictly foreign trawl fishery off Alaska, and would do nothing for any U.S. interest.

We hope this aids you in defining Alaska's and NPMFC's position with respect to foreign sales.

Sincerely,



Michael J. Scott  
Assistant Professor  
of Economics

MJS/ds

# URGENT

# Alaska Communications

# Telegram

Overnight or Letter Telegram  Personal Opinion Message  Press  (Full Rate unless marked.) This telegram will be transmitted by cable, radio, or satellite, and is accepted subject to the tariff rates, rules, and regulations of RCA Alaska Communications, Inc. on file with the FCC and the Alaska PUC. Liability is limited to \$500 except for repeated or specially valued service which is available upon request.

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T E L E G R A M

To

May 16, 1977

The Honorable Juanita Kreps  
Secretary of Commerce  
Fourteenth Street and Constitution Avenue  
Washington, D. C. 20230

Re my policy statement of March 8, 1977, on file with NMFS, Washington.

This telegram reconfirms the State of Alaska's position regarding developmental fisheries on those fisheries resources which are currently underutilized or non-utilized by U.S. citizens. Alaskan fishermen have expressed their desire to enter the groundfish and herring fisheries off of Alaska to an extent that would soon replace foreign fishing effort. P.L. 94-265 grants U.S. citizens first preference to the fisheries resources within the FCZ and states that only that which is excess to U.S. capacity may be granted to foreign nations. Therefore, to displace foreign fishermen in the FCZ, U.S. fishermen must establish harvest capabilities.

Sale of these non-utilized or underutilized resources to foreign nations through joint venture and/or U.S. agents on an interim basis, I stress interim basis, should be permitted to the extent that domestic processing and marketing capabilities do not exist and in a manner designed to foster rather than inhibit such domestic capability. This policy should relate only to underutilized and developing fisheries and not to those fisheries that are fully developed, i.e., salmon, halibut, crab, etc. Surely it is preferable that U.S. fishermen at least be given the opportunity to catch these resources rather than having the resource both caught and processed by foreign fleets.

While our fishermen should have such an opportunity, consideration should also be given to incentives or other arrangements to encourage the development of domestic or shore processing capability. Your favorable consideration of our viewpoint is requested.

Jay S. Hammond  
Governor of Alaska



U.S. DEPARTMENT OF COMMERCE  
National Oceanic and Atmospheric Administration  
NATIONAL MARINE FISHERIES SERVICE  
Northwest & Alaska Fisheries Center  
2725 Montlake Blvd. E.  
Seattle, Washington 98112

May 12, 1977

TO: Robert W. Schoning, Director, NMFS, F  
FROM: Dayton L. Alverson, Center Director, NWAFC, F11  
SUBJECT: Visit of Mr. Delaney and Mr. Ely

These two gentlemen are attempting to put together a package of information for U.S. fishermen relating to delivery of fish to Korean processors. In this regard they visited my office on Tuesday, May 10 to discuss the potential yield of pollock in the Gulf of Alaska. They expressed further concern that since virtually all of the TAC was allocated to the foreigners, any substantial catch by the U.S. fishery would seriously exceed the optimum yield figure of 150,000 mt established for CY 1977 in the Gulf of Alaska. They are aware, of course, that the preliminary management plans place no constraint on production by U.S. fishermen but are also aware that it would be extremely difficult to acquire a permit for the Korean processing vessel because of the potential overrun of the estimate of the optimum yield value placed in the preliminary management plan.

It should be noted that the Center, too, is concerned that there be no major overrun of any optimum yield figure established in the PMP. In addition, however, we feel that there is some room for considering a quota for an operation of this type. For example, we would see no difficulty in authorizing a permit for an operation which would not produce over 25,000 mt during this calendar year. Our basis for this statement lies in the fact that we established a very conservative OY figure for total pollock production in the Bering Sea based on the quality of our information. You will recall that our overall MSY estimate ranged from 168,000 to 338,000. The point is that the estimate in the PMP is below the minimum of the range. Hence, the OY value which controls the total allowable level of foreign fishing is rather conservative. If NOAA felt it was desirable to stimulate a U.S. fishery for pollock on the basis of the best available data, we would not see a major problem.

Finally, there is a real question as to whether or not Japan and the Soviet Union will harvest the foreign allocation. Even under free access and no controls, pollock production in the Gulf of Alaska never exceeded 68,000 mt. In short, although as a matter of principle we object to overrunning the OY, in this instance we would not make a big issue of the fact that reasonable overrun would in any way threaten the stocks, particularly when we can make adjustments if necessary in the 1978 season should this occur.





U.S. DEPARTMENT OF COMMERCE  
National Oceanic and Atmospheric Administration  
Washington, D.C. 20230

OFFICE OF THE ADMINISTRATOR

May 18, 1977

MEMORANDUM FOR BOB SCHONING

FROM: HOWARD W. POLLOCK 

SUBJECT: Underutilized or Nonutilized Fisheries Resources  
Off Alaska

Bob, I have seen a copy of the telegram from Governor Jay S. Hammond, of Alaska, to Secretary Juanita Kreps concerning the captioned matter, and presume that you are in the process of preparing a suitable response for her to send to the Governor. Am also aware of the divergence of views on the North Pacific Fishery Council concerning the matter.

Since I will be out of the city for some time, attending the sixth session of the Law of the Sea Conference in New York, and will not have an opportunity to sign off on the outgoing correspondence, I want to take a brief moment to give you my views.

At the present time there is practically no domestic fishery for the Alaskan pollock, and for other species of fishes in Alaskan waters which are either underutilized or nonutilized, but important to the markets of foreign nations. I concur wholeheartedly with the views of Gov. Hammond. Although we do not have the domestic processing and marketing capabilities for these products at the present time, we do have the opportunity of encouraging the development of domestic on-shore processing capability. In the meanwhile, it is of great importance that we encourage our U. S. fishermen by giving them the opportunity to catch these underutilized or nonutilized fishery resources, even if they must presently be sold to foreign purchasers for processing and consumer marketing. Of course, the sale of the resources to foreign nations should be permitted on an interim basis only, until such time as domestic processing and marketing capabilities become a reality. It is important that we encourage and foster, rather than inhibit, the development of the domestic processing and marketing capabilities. But, presently prohibiting the sale of these resources by our domestic fishermen to foreign nations can only inhibit the development of the domestic fishery. As



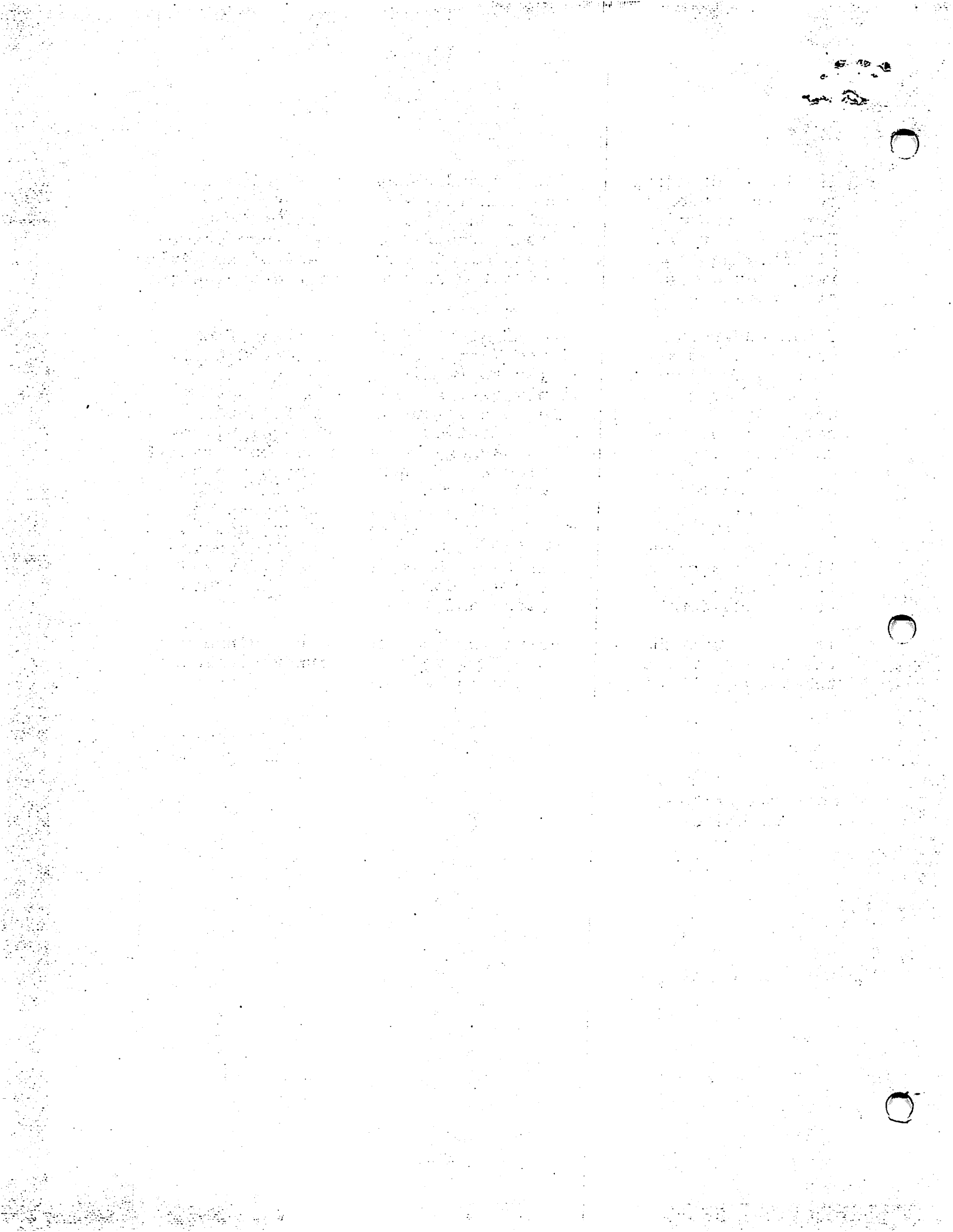
the U. S. capacity for fishing and processing accelerates for these underutilized and nonutilized resources, the foreign fisheries in our Alaskan waters will be reduced. Hopefully, then, one day soon, the pollock and other underutilized and nonutilized groundfish, herring and other living resources can be a total domestic fishery, to the exclusion of foreign nations.

I can understand how there might be some opposition from Seattle-based members of the North Pacific Fishery Council to sale by Alaskan fishermen to foreign purchasers on an interim basis; but, I simply disagree with their view. It would be vastly preferable to have our Alaskan fishermen catching the resources, even if they are sold foreign, for the time being, rather than having the resources both caught and processed by foreign fleets. Either way the business of the Seattle-based processors is not directly involved. If the fear is that selling to the foreign processors will preclude the development of a domestic capability, again, I disagree. Under the provisions of the Fishery Conservation & Management Act of 1976, we have the capability and the incentive to develop our own domestic fisheries, this to include domestic processing and marketing.

It is my hope that we prepare for the Secretary's signature the kind of response which will give the Governor of Alaska the support he asks and merits in this case.

cc: Dave Wallace  
Bob White

✓ bcc: Chuck Meacham



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January 27, 1977

The Honorable Rozanne L. Ridgway  
Deputy Assistant Secretary  
for Oceans and Fisheries  
U. S. Department of State  
Washington, D. C. 20520

Dear Madam Ambassador:

It has been brought to my attention that some American fishing interests are considering conducting joint ventures with foreign nations in which U. S. fishermen would deliver underutilized species of fish directly to foreign processing vessels. I wish to endorse this type of operation for species which would not have otherwise been harvested by American fishermen.

There are presently several major species of fish, such as hake or pollock, which are almost totally harvested by foreign fishermen. U. S. fishermen are capable of harvesting many of these species, but have failed to do so because of the lack of American processing and marketing capability.

Joint ventures between American fishing vessels and foreign factory ships would bring substantial revenues to American fishermen which they would otherwise not have received. Even more important, once American fishermen have proven that they can successfully harvest underutilized species the U. S. processing industry will invest the necessary capital in onshore facilities to establish an all-U. S. capability of harvesting, processing, and marketing this fish.

Anything which you could do to assist American fishermen in the establishment of joint ventures would be greatly appreciated.

With best wishes,

Cordially,

TED STEVENS  
United States Senator



