


M E M O R A N D U M

TO: Council, SSC, and AP members

FROM: Clarence G. Pautzke 
Executive Director

DATE: April 6, 1988

SUBJECT: U.S. Support Industry Proposal

ACTION REQUIRED

- (a) Review NOAA-GC opinion.
- (b) Report on meetings of Maritime Support Group.
- (c) Council direction on further development of proposal.

BACKGROUND

In January the Council reviewed a proposal submitted by Paul Fuhs, Mayor of Unalaska/Dutch Harbor, to give U.S. transport and bulk fuel carriers preferential treatment over foreign vessels that now provide those services to the foreign fish processors operating off Alaska [item C-9(a)]. The Council requested a legal opinion from NOAA General Counsel on whether such preferential treatment of the U.S. support industry is mandated or even allowed under the MFCMA. They also recommended that an industry workgroup be established to carefully examine the issues involved and recommend solutions.

(a) NOAA-GC Opinion

The draft NOAA-GC Opinion was received in the Council office on April 4 and overnight expressed to the Council family the same day. It states that a separate Support Industry FMP as originally envisioned by Mayor Fuhs would not be authorized by the Magnuson Act. An amendment to the groundfish plans also probably would not be approved unless it could be tied to conservation and management or enforcement and monitoring. The remaining option would be for the Council in reviewing foreign vessel permits to either give preference to joint ventures using U.S. support services or directly limit the number of support vessel permits. The Jay Johnson memorandum expresses concern as to whether the record developed during the permit review process would be strong enough to support a legal challenge. NOAA General Counsels Craig O'Connor and Jon Pollard will be available to explain the legal opinion.

(b) Industry Workgroup Report

The Maritime Support Group, appointed by Jim Campbell and chaired by Dick Knapp, has representatives from all major shipping and services firms operating in the Alaska region, several fisheries associations, and various

communities [item C-9(b)]. The workgroup met on February 11 and March 30. A report by Dick Knapp is under item C-9(c). He will be available to discuss the report and answer any questions.

(c) Next Steps

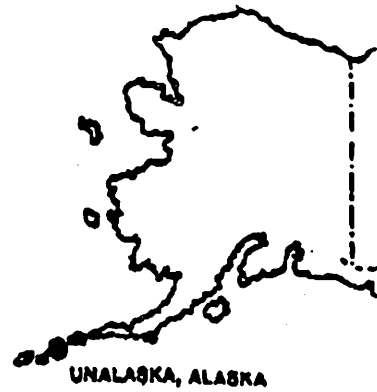
The Council needs to determine what further action should be taken on the Fuhs proposal. It is now outside the regular groundfish amendment cycle. Does the Council want the Maritime Support Group or the interested industry to develop the rationale for a plan amendment or permit condition, or should the service support industry be left to develop on its own as the opportunity arises? The workgroup will need your direction for its next meeting on May 4.

CITY OF UNALASKA

P.O. BOX 89
UNALASKA, ALASKA 99685
(907) 681-1281

"Capital of the Aleutians"

October 8, 1987



James O. Campbell, Chairman
North Pacific Management Council
P.O. Box 103136
Anchorage AK 99510

Dear Mr. Campbell:

This letter is to outline and clarify our proposal for the 1989 Groundfish FMP.

The proposal calls for a priority system for U.S. shippers and U.S. fuel suppliers in the U.S. EEZ. Foreign fishing and processing vessels would be required to ship their products on U.S. carriers and purchase fuel from U.S. distributors to the extent that the domestic industry has the capacity to supply these services.

These service industries are specifically cited in the Magnuson Act right next to fishing and fish processing. It is clear the intent is to capture maximum return to American companies in an "exclusive economic zone" not just a "fishery zone". The Council is charged in the Magnuson Act with representing the domestic interests of all parties with standing as named in the act.

Since NMFS has released the data, we now have a clear analysis of the volumes of fish cargoes. It is not difficult to assess domestic shipping capacity and require that Foreign Processors fully utilize that capacity before foreign shipping is allowed to carry it.

In many ways, it is easier to assess domestic shipping and fueling capacity than it is to assess domestic processing capacity. In addition cargo shipped data is easier to obtain and verify than fisheries data.

While you have seen mainly fishermen and processors in the past, you will see a much more active presence at the Council meetings by the shipping and fuel supply industry. They are fully aware of and in support of this proposal.

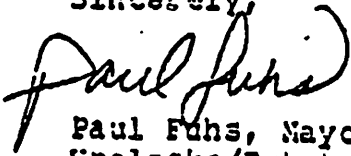
James O. Campbell
October 8, 1987
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We are making this proposal because the benefits of this support activity would be great for our town, as well as other west coast parts. Employment for local residents (and American seaman) would be substantial, along with tax revenues we need to provide the infrastructure for the developing domestic bottomfish industry.

Last year when the 100 mile zone was being considered, joint venture interests suggested that we focus on service industries rather than primary processing. While we are still doing what we can to support our shoreplants, we are taking their advice and pursuing the service aspect of the industry by filing this proposal.

Please contact us if you have any further questions concerning our proposal.

Sincerely,



Paul Fuhs, Mayor
Unalaska/Dutch Harbor

I. STATEMENT OF PROPOSAL

This transmittal requests that the Council incorporate this proposal into the 1989 Fishery Management Plan (FMP) for the U.S. support industry specifically marine transportation and bulk fuel.

The Alaskan groundfish industry is developing and becoming progressively more Americanized. A key catalyst for Americanization of harvesting and processing has been the Magnuson Act. Like harvesters and processors, the United States support industry, specifically marine transportation, cold storage, bulk fueling and other support services are also eligible to benefit from the Magnuson Act. These support operations are specifically identified as a form of "fishing" in the Magnuson Act. According to the Magnuson Act, the term "fishing vessels" includes vessels engaged in the transport of fish and/or fish products or any other support activity (Sec. 3.11). The CFR further clarifies that support activity includes "transferring or transporting fish or fish products; or supplying a fishing vessel with water, fuel provisions,
..... " (50 CFR 611.2)

Despite successes in harvesting and more recently in processing, U.S. support services and small Southwest Alaska coastal communities have realized only marginal economic gains. More than 500 foreign flag vessels spent 34,000 vessel days operating in the U.S. EEZ in 1986 but used only marginal amounts of U.S. shipping capacity or other support services. U.S. support services are both cost and quality competitive with foreign support services. However, large foreign flag fleets continue to support their distant water fleets operating in U.S. waters from home ports using little if any U.S. provided support services .

II. OBJECTIVE

A. PROBLEM STATEMENT

Despite recent gains made by U.S. harvesting and processing sectors, the economic value accruing to U.S. interests continue to be a small fractional part of the total economic value of the resource. Some estimates place the U.S. return at about 10 percent of the total. Foreign flag processing fleets, tramps and other support vessels continue to maintain a high level presence in U.S. waters, declining only seven percent in the number of vessel days from 1985 to 1986. The U.S. support industry has not experienced gains comparable to harvest and processing because foreign fishing companies have large vertically integrated operations that provide a strong disincentive to use U.S. support services even when such services are more economical. So long as foreign fishing companies continue to preclude participation by U.S. support firms, an increased amount of economic benefit of the resource will

not flow to Southwestern Alaskan communities or to the U.S. support industry.

B. IMPLICATIONS IF THE PROBLEM IS NOT SOLVED

Because of the market dominance exercised by Japan, Korea, and the state-owned nature of the Polish and USSR fishing companies, free-market economics cannot play its traditional role in establishing a competitive framework within which U.S. support firms can successfully operate and compete on fair terms. It is a well understood fact that both Japan and Korea exercise tight control through tariff and quotas over the importation of U.S. processed fish products. This scheme closely regulates the import of designated fish and shellfish species to protect Japanese and Korean domestic processing industries. Japan controls its domestic market partly to protect its large investment in its distant water fishing fleets. The implications for Japan and Korea's highly restrictive import policies on the development of U.S. processing capacity is ominous in that there will be significant political pressure put on their respective governments to maintain trade protectionist measures especially aimed at U.S. processed product. Therefore, the Japanese and Koreans will move energetically to maintain their current dominance in support services, especially maritime transportation. And, as long as foreign fishing companies refrain from procuring transport, fuel, provisions or repair services, from the U.S. support industry, Southwest Alaskan communities will not derive more than marginal economic benefit from the fisheries.

Following application of the Magnuson Act, investment will begin to flow into new capacity for vessels and support facilities to increase the level of services available to support the fishery. U.S. capacity, especially marine shipping, and bulk fuel sales are now cost competitive with existing foreign supplied transport and fuel. Capital investment in the support industry will accomplish two goals: first, it will increase the overall competitive position of the fishery in relation to other world class fisheries and second, it will improve the economic returns earned by small Southwest Alaska communities and U.S. support service firms.

C. IMPLEMENTATION MEASURES

There are a number of possible methods by which a Fishery Management Plan for the U.S. support industry could be implemented. One possible method is to first make a determination of U.S. support capacity in relation to the total amount of support services now provided by foreign operators. This percent of capacity could then be applied across the board to all foreign countries processing fish in the EEZ. It would therefore be up to each country to be responsible to see that their respective fishing companies in total use the

established percent (expressed in units of capacity, e.g. metric tons of cargo or gallons (tons) of fuel) of U.S. support service.

III. JUSTIFICATION FOR COUNCIL ACTION

The objective of the Fishery Management Plan should be to achieve for the U.S. fishing industry the optimum value of the support fishery. "Optimum value" in this case is defined as that portion of the sustainable support activity which will provide the greatest overall benefit to the United States.

Should the council not apply the Magnuson Act by establishing a Fishery Management Plan for the support industry, foreign fishing companies will continue to use their in-place support service capacity (arising from vertical integration or state-owned enterprise) rather than U.S. support services. Consequently, only marginal value added benefits from the fishery resource will flow to U.S. firms and Alaskan communities. Large foreign fishing companies have vertically integrated operations that encourage them to forego using U.S. support services even when these services are cost competitive.

This request for Council action follows in the track of previous Council actions with respect to providing preference to the resource for U.S. harvest and processing capacity. Creation of a FMP for the U.S. support fishery would mean that foreign processing vessels would receive allocations only to the level of the in-place capacity of the U.S. support industry. Establishment of a FMP for the U.S. support industry would be accomplished under the process outlined in the Magnuson Act and as directed by existing federal codes and regulations.

IV. FORESEEABLE IMPACTS

A FMP for support services would provide a wedge for U.S. companies to offer support services to foreign flag fleets that are competitive in terms of price and quality. A FMP would achieve for the U.S. fishing industry the optimum value of the support fishery. A FMP would facilitate raising capital for investments in expanded and upgraded shipping capacity, docks, storage yards, cargo areas and cold storage facilities thus resulting in greater efficiency for the entire industry. It would have the overall effect of making products produced from U.S. Alaskan groundfish stocks more competitive in world markets. Enhanced economic benefits from increased value added activities could be realized from increases in domestic support activity.

In 1986 more than 5,000 vessel - to - vessel at-sea transshipments were made of frozen fish and meal product by foreign vessels. This amounted to 1,200,000 metric tons of fish product transshipped at-sea by foreign flag vessels within the U.S. EEZ. This is in sharp contrast to the total estimated shipment

of fish on U.S. bottoms of 50,000 - 75,000 metric tons. Currently more than ninety percent of the fishery resource is harvested, processed and transshipped at-sea with only a small amount of activity taking place shoreside. More than 500 foreign flag vessels operate in the area and spent in excess of 34,000 operational days servicing the industry in 1986. Yet, almost no goods or services are procured by foreign fleets from U.S. firms or from U.S. coastal communities.

Following establishment of a FMP for the support industry, U.S. shipping firms would develop a feeder system to consolidate fish cargo at Dutch Harbor and Kodiak for containerized shipment to overseas markets in addition to increased shipments to U.S. west coast ports. Cold storage facilities for temporary holding of frozen product would be constructed to allow for a more even flow of product. Improved docks, cargo staging areas and other support services would be developed to provide economical support services to the industry.

V. POSSIBLE ALTERNATIVE SOLUTION

A vessel permitting system could be established that would link the issuance of a permit to operate with the use of a set amount of U.S. provided support service. Total fish tonnages or the total number of operational days would be set by the amount of U.S. support services utilized by foreign processors.

VI. OTHER DATA - MARITIME TRANSPORTATION AND BULK FUEL

GROUND FISH PLAN AMENDMENT PROPOSAL
North Pacific Fishery Management Council

Name of Proposer: Paul Fuhs, Mayor Unalaska/Dutch Harbor

Address: P.O. Box 89
Unalaska, Alaska 99685

Telephone: (907) 581-1251

Date: October 1, 1987 (amended 12/1/87)

Fishery Management Plan: Fishery Management Plan for the Groundfish Fishery in the Bering Sea and Aleutian Islands (FMP)

Brief Statement of Proposal: This proposal would establish a linkage between the issuance of permits to foreign fish processing vessels and their use of U.S. transport and bulk fuel carriers. Permits to foreign processing vessels would be issued only upon the condition of existing contracts for the purchase of specific volumes of the services of U.S. cargo and bulk fuel carriers for their at-sea operations. The volume required by the contract would equal U.S. capacity to provide those services. For example, if it were determined that U.S. support service firms could supply 25 percent of the total volume requirements generated by the fishery for cargo shipping and bulk fuel, then foreign processing permits would require that 25 percent of the processed fish and fuel consumed be transported and served by U.S. firms.

A conditional permit could be applied in one of two ways: to an entire country or to individual processing companies. Each country could elect either method. If a country elects to meet the permit conditions as a single entity, the allocation of U.S. support service capacity to individual processing companies would be decided by that country. Compliance would be monitored on a company by company basis. In either case, failure to meet the permit conditions would preclude the issuance of a permit for the following year.

Objectives of Proposal: To increase the economic return to U.S. citizens from the EEZ fishery resource by allowing for fuller participation by U.S. support firms. U.S. support firms cannot now fairly compete because of state-owned foreign fishing enterprises and large vertically integrated foreign fishing firms that exclude the purchase of services that could otherwise be provided by U.S. firms. This proposal will also provide an additional management tool to confirm the quantity of fish being shipped through improved documentation of cargo.

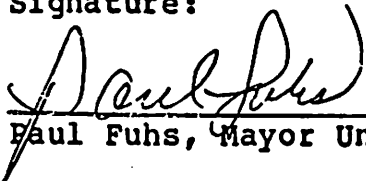
Need and Justification for Council Action: U.S. support service firms are largely excluded from participating in the industry. The total economic return accruing to U.S. citizens from the resource amounts to only a small fractional amount of the resource's total value. More than 500 foreign vessels spent in excess of 34,000 vessel days in the EEZ in 1986 by purchased only small amounts of U.S. support services. Almost all value added activities involving processing, transportation, cold storage, fuel bunkering, provisioning and ship repair continue to be provided by foreign firms. Council action will provide a wedge to open the industry to greater involvement by U.S. cargo and bulk fuel firms.

Foreseeable Impacts of Proposal: The U.S. support service industry would gain a considerable volume of new business. Alaska communities gain through increased employment, improved infrastructure and additional tax revenues. U.S. citizens will earn an improved return on the EEZ fishery resource. The U.S. enforcement agencies gain through improved data collection capabilities and other enforcement measures that will allow confirmation of quantities of fish cargoes shipped.

Are There Alternative Solutions: None. Under the current system, U.S. firms will continue to be largely excluded from participation. Foreign firms will continue to use their in-place support service capacity arising from vertical integration or state-owned enterprises.

Supportive Data: Additional data is being gathered and analyzed. Refer to the text of the Dutch Harbor Groundfish proposal for transshipment data and product volume.

Signature:




Paul Fuhs, Mayor Unalaska

Maritime Support Group

Dick Knapp, Chairman	Alaska Railroad
Mike Coleman	Kemp Pacific Fisheries
Barry Collier	Pacific Seafood Processors Association
Ted Evans	Alaska Factory Trawlers Association
Paul Fuhs	Unalaska
Pete Granger	American High Seas Fisheries Association
Shari Gross	Gross and Associates
Fred Kirkes	American President Lines
Tom Garside	Crowley Maritime
Hans Mauritzen	SunMar
Jerry McAviney	Sea-Land
Elwood Peterson	International Shipping Services
Tom Rueter	North Star
Max Soriano	Delta Western
Peter Strong	Coastal Transportation
Everett Trout	TOTE
Rich Wilson	St. George
Mary Truitt	ALAMAR

M E M O R A N D U M

TO: Council Chairman Jim Campbell

FROM: Richard Knapp
Chairman, Maritime Support Group 

DATE: April 6, 1988

SUBJECT: Report on Meetings of Maritime Support Group

The Maritime Support Group met twice in Seattle, on February 11 and March 30. At the first meeting the workgroup discussed foreign fishery support operations, U.S. capacity to provide services, shoreside support facilities, factors affecting competitiveness of the U.S. support industry and impacts the proposal would have on other industry sectors such as harvesting, processing, and port development as shown in the attached agenda. Four subgroups were established to assess the information available on those topics. Each subgroup decided that more data were needed and developed questionnaires that were sent to industry.

The Maritime Support Group met again on March 30 to review the information gathered from the surveys and develop recommendations for the Council. Considerable information was developed on port facilities around western Alaska. Much less information was available on foreign operational patterns and capacity. Though there were relatively few responses to the questionnaire on U.S. capacity to provide services to the foreign processing fleet, those that did respond were optimistic that given the chance, U.S. service support industry would develop rapidly to fill any void created by a mandated usage of their services. U.S. factory trawler representatives expressed concern over the possibility that freight costs could increase if the service support proposal were approved.

The Maritime Support Group did not have the NOAA-GC opinion available for reference and appears to be quite divided on whether its a good idea to go ahead with the Fuhs proposal. We thought it best to break the issue into two discrete activities, the service side (supplying the fleet with fuel, stores, etc.) and the transportation side (transporting processed product to market destinations). Two subgroups were assigned the tasks of assembling additional information on each of the topics and developing recommended solutions to the perceived problems. Each group has met at least once and will provide their recommendations by Council meeting time. The Maritime Support Group will meet next on May 4.

Draft Agenda

Maritime Support Group
February 11, 1988

1. Introduction

- a. Introduction of Committee members.
- b. Summary of Fishery Support Industry proposal.
- c. Identification of the problem.

2. Foreign Fishery Support Operations

- a. What are the nationality, type and number of foreign vessels supporting foreign factory processors working off Alaska?
- b. What are the types and volumes of cargo or fuel supplied and their origin and destinations?
- c. How many trips do these vessels make each year and where are their ports of call?
- d. What are the general operational patterns for the carriers in servicing the fleet?

3. U.S. Capacity to Provide Services

- a. How many U.S. vessels now are providing support services to fisheries off Alaska?
- b. What are the types and volumes of cargo or fuel provided? What percentage is this of the whole?
- c. What are their general operational patterns?
- d. How will the U.S. support sector expand over the next five years?

4. Shoreside Support Facilities

- a. What are the current shoreside constraints to providing expanded support services to the fishing industry? Is land available?
- b. Are port facilities in the Bering Sea and Aleutians or elsewhere in Alaska capable of handling large traffic volumes? Is dock space available? Handling facilities? Container storage areas? What are the turnaround times for port visits?
- c. Where are current port locations? Where could they be expected to develop to support the fishing industry?
- d. What preference is given to domestic and U.S. foreign ships making port calls? Do U.S. or foreign vessels provide a greater boost to the local economy?

5. Major Factors Affecting Competitiveness of U.S. Support Industry
 - a. How do subsidies affect the competitive balance within the domestic fleet and between domestic and foreign support operations?
 - b. How do local, state or federal taxes affect U.S. competitiveness?
 - c. Are port operations efficient enough to support expanded operations?
6. Mechanisms for Improving the Competitiveness of the U.S. Support Industry
 - a. What changes in laws or policies are needed at the local, state or federal levels to enhance U.S. support operations?
 - b. Is legislation necessary to encourage the U.S. industry to participate to a larger degree?
 - c. Lacking successful legislation, what else can be done to encourage or promote or even make possible the utilization of U.S. bottoms in the transportation of the vast fish resource off Alaska?
 - d. If foreign vessel permit restrictions are necessary, what should they be and when should they be imposed? Before the season begins or as U.S. capacity develops during the year?
 - e. What is a good measure of U.S. capacity?
7. Impacts on Other Industry Sectors
 - a. Will measures that increase the competitive position of the U.S. support industry necessarily mandate higher costs to the U.S. processing industry?
 - b. How will these measures impact ports and port development?
8. Next Steps
 - a. What information and analyses are needed?
 - b. How can the information be gathered? Is it proprietary?
 - c. Who should help with the analyses?
 - d. When and where should the workgroup meet next?



TACOMA-PIERCE COUNTY CHAMBER OF COMMERCE

April 8, 1988

James Campbell, Chairman
North Pacific Fishery Management Council
P.O. Box 103136
Anchorage, AK 99510

Dear Mr. Campbell:

The Chamber of Commerce supports a services priority for American carriers and bulk fuel suppliers servicing foreign processing vessels in the U.S. Exclusive Economic Zone.

This position has been adopted by our Board of Directors on the recommendation of the Chamber's Alaska Committee. The position of the Alaska Committee was developed after an issue forum held in Tacoma with speakers from Alaska and Alaskan businesses.

Your Council's action in promotion of the services priority in the EEZ is requested.

Sincerely,

Renata Benett, Chair
Alaska Committee

