

MEMORANDUM

TO: Council, SSC and AP Members

FROM: Clarence G. Pautzke
Executive Director



ESTIMATED TIME
16 HOURS

DATE: May 28, 1998

SUBJECT: Inshore-Offshore 3

ACTION REQUIRED

Final decision on pollock allocations in the Gulf of Alaska and Bering Sea/Aleutian Islands

BACKGROUND

In April you reviewed the draft analysis of alternatives, provided direction to staff on additions to the analysis, and released it for a public review period prior to the final decision scheduled for this meeting. In addition to general revisions suggested by the SSC, and several minor additions suggested by the AP, the Council requested the following additions to the analysis:

1. Further discussion of potential spillover effects in other fisheries (pages 258-282);
2. Further information on marine mammals requested in April, including an examination of alternatives and options which would limit CVOA area removals, including additional alternatives for categories of vessels which might be excluded from fishing in the CVOA (Chapter 6);
3. Additional discussions regarding prices, exchange rates, markets, and market control issues (pages 100-120 and pages 246-248);
4. Additional options for defining and managing a 'true' mothership allocation (pages 147-151);
5. Inclusion of a new allocation alternative which would provide a set aside for small catcher vessels (with no delivery mandates), and would eliminate a direct allocation to the 'true' mothership category (pages 170-173);
6. Additional discussion of 'excessive share' issues as they pertain to I/O3 (pages 241-246);
7. Revision to the Impact Assessment, Inc. analysis of social/community level impacts (Appendix II) as requested by the SSC and Council (this consisted primarily of more adequate documentation of the study methodologies, in order to underpin the findings from that study); and,
8. Revisions to the McDowell Report on CDQ linkages and CDQ program impacts (Appendix III) as requested by the SSC/AP/Council (this consisted primarily of further substantiation of the conclusions drawn by the authors, including reconciliation of the actual survey responses with those conclusions).

Council staff will provide a summary of the new information in the main document, while Dr. Mike Downs of Impact Assessment, Inc. will provide a summary of the revised Appendix II. For your reference, the Council's Problem Statement and list of alternatives are included below:

GOA Problem Statement:

Allowing the current Gulf of Alaska Inshore/Offshore allocative regime to expire December 31, 1998, would allow the same preemption of resident fleets by factory trawlers in the pollock and Pacific cod fisheries which occurred in 1989. It was this dramatic preemption which triggered the original proposal for an inshore/offshore allocation. In 1989, there was still pollock available in the Bering Sea when the preemption occurred when vessels moved into the Gulf to take advantage of fish with high roe content.

A rollover of the current Gulf of Alaska inshore/offshore program which allocates 100% of the pollock and 90% of the Pacific cod to inshore operations is a proactive action to prevent the reoccurrence of the original problem.

BSAI Problem Statement:

The current inshore/offshore allocation expires at the end of 1998. The Council thus faces an inevitable allocation decision regarding the best use of the pollock resource. Many of the issues that originally prompted the Council to adopt an inshore/offshore allocation (e.g., concerns for preemption, coastal community dependency, and stability), resurface with the specter of expiration of the current allocation.

The current allocation was made on the basis of several critical assumptions including utilization rates, foreign ownership, the balance between social gains and assumed economic losses to the nation, and the nature of progress on the Council's Comprehensive Rationalization Program (CRP) initiative. Many of these assumptions have not been revisited since approval of the original amendment. It is not clear that these assumptions hold or that the Council and the nation are well-served by continuing to manage the pollock fishery without a reexamination of allocation options. The Magnuson-Stevens Act presents the Council with a new source of guidance to evaluate national benefits. In the context of Council deliberations over Inshore-Offshore 3, this includes enhanced statutory emphasis on increased utilization, reduction of waste, and fishing communities.

There have also been substantial changes in the structure and characteristics of the affected industry sectors including number of operations, comparative utilization rates, and outmigration and concentration of capital. These changes are associated with several issues, including: optimization of food production resulting from wide differences in pollock utilization; shares of pollock harvesting and processing; discards of usable pollock protein, reliance on pollock by fishing communities; and decreases in the total allowable catch of pollock. In addition, changes in fishing patterns could lead to local depletion of pollock stocks or other behavioral impacts to stocks which may negatively impact Steller sea lions and other ecosystem components dependent upon stock availability during critical seasons.

Therefore, the problem facing the Council is to identify what allocation would best serve to ensure compliance with the new Act and address the issues identified above.

Alternatives Being Considered

Alternative 1: No action.

Alternative 2: Rollover existing inshore/offshore program, including:
GOA pollock (100% inshore) and Pacific cod (90% inshore) allocations
BSAI pollock (35% inshore, 65% offshore) allocation
 suboption a: 1-year rollover
 suboption b: 3-year rollover

Alternative 3: Allocation range (BSAI only) of following percentages:

Option:	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Inshore sector	25	30	40	45
True Motherships	05	10	10	15
Offshore sector	70	60	50	40

Option: Establish a reserve set aside for catcher vessels less than 125 feet. The range considered for this set aside is 40-65% of the inshore and "true mothership" sector quotas. This range is based on the percentage of harvest that these smaller catcher vessels accounted for between 1991 and 1996.

Allocations would be analyzed such that the True Motherships (which could operate in the BSAI only) would be looked at as a sub-component of either the inshore or offshore component or as a separate component.

Option: Nine to 15% of the offshore quota shall be reserved for catcher vessels delivering to catcher processors. This is in addition to the allocation that catcher vessels may receive under the "True Motherships" and Inshore sectors.

Alternative 4: "Harvester's Choice" for Catcher Vessels Less Than 125' LOA (added in April 1998).

Establish a set-aside for catcher vessels less than 125' LOA. The set-aside would be based upon a combination of:

- 40 to 60% of the inshore quota, plus
- 9-15% of the offshore (catcher processor) quota, plus
- 100% of the true mothership sector quota.

This alternative would use the main allocation percentages and small vessel set-aside sub-options, considered under Alternative 3, to determine the amount of pollock allocated to small catcher vessels (<125' LOA). Once their allocation percentage is determined, each of the small catcher vessels would be allowed to develop markets and deliver their pollock to the inshore, true mothership, or catcher processor sectors. Larger catcher vessels would only be allowed to sell their allocation to the inshore sector. Catcher processors would still be allowed to harvest some or all of the catcher processor quota depending on the option selected.

Under the Status Quo allocation percentages, this options reduces the pollock guaranteed to all of the processing sectors. However, any processing sector could increase the amount of pollock they process if they are relatively more successful in developing contracts with small catcher vessels.

Alternative 5: "Harvester's Choice" for Catcher Vessels 155' LOA and Shorter.

This alternative is the same as Alternative 4 except that the set-aside also includes catcher vessels from 125' through 155' LOA.

The definitions provided by staff for the Inshore, Offshore, Catcher Vessel, and True Mothership sectors will be used in this analysis. These same definitions were used in the sector profiles developed for the Council, and presented at the September meeting. Those breakdowns include:

Catcher Vessels:

- < 125' Length Overall (LOA)
- 125' through 155' LOA
- > 155' LOA

Inshore Processors:

- Surimi Capability
- No Surimi Capability

Catcher Processors:

- Surimi Capability
- No Surimi Capability

True Motherships:

A vessel that has processed, but never caught, pollock in a "pollock target" fishery in the BSAI EEZ.

Also included as options under Alternative 2 and Alternative 3:

1. Catcher vessel operational area (CVOA) Issues:
 - a. Keep the CVOA as currently defined.
 - b. Restrict catcher/processors from operation in the CVOA during both the A & B season with an examination of allowing motherships to operate in the CVOA exclusively as well as excluding them from CVOA.
 - c. Restrict larger catcher vessels (>155' or >125') fishing in CVOA (added in April 1998).
 - d. Repeal the CVOA.
2. Sunset Issues:
 - a. No sunset date, but intended to serve as an interim measure until the Comprehensive Rationalization Program has been completed.
 - b. 3-year sunset.
3. The analysis will identify and examine potential conservation impacts on fish stocks, marine mammals and other marine resources that may result from status quo, or any changes in the structure of the fishery as well as other recommendations made by the SSC in their June 1997 meeting.

Item C-1(a) is the current Executive Summary of the Council/NMFS staff analysis. Item C-1(b) contains all memos and correspondence regarding the audit process for the price and employment data submitted by At-sea Processors' Association (APA). Item C-1(c) contains public comments received on this issue, and Item C-1(d) are the transcripts of public testimony and Council discussion from the April 1998 meeting.

EXECUTIVE SUMMARY

Chapter 1

This Chapter of the document describes the management background and contains a summary of historical inshore/offshore issues, including previous Problem Statements and the results from the I/O1 and I/O2 analyses. The current Problem Statement and list of alternatives being considered are also contained in this chapter. Alternatives for the Gulf of Alaska (GOA) are limited to (1) No Action - allow the allocations to expire, or (2) extend the existing allocations which are 100% of pollock and 90% of Pacific cod allocated to vessels delivering onshore. The time frame for the GOA extensions could be one to three years, or until replaced by other measures related to the comprehensive rationalization program (CRP).

Bering Sea/Aleutian Islands (BSAI) alternatives include (1) No Action - allow allocations to expire; (2) rollover of the existing allocations; (3) a range of possible reallocation alternatives among sectors; and, (4) a new alternative (added in April 1998) which makes direct allocations to smaller catcher vessels, without delivery requirements, combined with partial 'guarantees' for processor sector deliveries. Additional alternatives are being considered relative to the Catcher Vessel Operational Area (CVOA), relative to suballocations to vessel categories within the major sectors, and relative to a separate allocation for a 'true mothership' category.

Chapter 2

This Chapter is devoted entirely to the GOA allocation alternatives and is essentially the only place in the document that the GOA alternatives are addressed. Background information on the GOA pollock and Pacific cod fisheries is provided, though the analysis is primarily qualitative in nature, reflecting the scope of alternatives (expiration or continuation of the existing allocations) and relatively straightforward decision facing the Council with regard to the GOA. This chapter assesses the GOA alternatives in a threshold manner; i.e., whether it can be shown that one alternative is superior to the other, in the context of the Council's Problem Statement, including the primary issues of industry stability and management considerations.

In terms of industry stability, the analysis illustrates the relatively small quotas of both cod and pollock in the GOA (compared to the BSAI), the ability for these quotas to be harvested and processed by the resident GOA fishing fleet and GOA based processors, and the importance of that fishing and harvesting activity to the fishermen, processors, and communities within which they reside. Allowing the allocations to expire would potentially allow significant amounts of catcher/processor vessel capacity into the GOA fisheries, resulting in potentially dramatic re-apportionment of the harvest and processing activities for both pollock and Pacific cod. With these allocations in place for six years now, the harvest and processing industries have adapted to a relatively stable business planning environment. Alternative 2, extending and maintaining the current allocations, is necessary to maintain this balance in the GOA and is the only alternative which is consistent with the Council's Problem Statement for the GOA. Existing within-sector preemption issues (primarily with regard to western/central GOA pollock and cod harvest by catcher vessels) are being addressed by separate Council initiatives, including development of additional management alternatives by a Council appointed Committee of industry representatives.

Pollock fisheries in the GOA are apportioned on a quarterly (now trimester) basis, primarily to spread the fishery out temporally to address marine mammal concerns. The small quotas are difficult for NMFS to manage on an in-season basis and frequent quota overruns have occurred within these seasonal apportionments. Allowing additional, high-power fishing capacity in these fisheries would exacerbate management difficulties and defeat the recent progress made by the agency in managing the GOA pollock fisheries. Continuation of the current

allocations appears to offer far greater benefits (relative to Alternative 1 - allowing the allocations to expire) in terms of management considerations and marine mammal considerations.

Chapter 3

This Chapter, along with information in Appendix 1, contains the baseline information for the BSAI pollock fisheries. Primarily this is 1996 information, the most recent year for which we have 'complete' data. Major findings include the following:

- Current TAC levels for BSAI pollock (1.1 mmt) are expected through at least the year 2000 and are therefore assumed to be at that level for the purposes of this analysis. We have also assumed that 7.5% of the 1.1 mmt TAC will be allocated to CDQ fisheries.
- Season lengths have declined for both sectors under the existing allocations. During the A-season the offshore sector has markedly lower season lengths compared to the onshore sector, while B-season lengths are very similar for both sectors. From 1992 to 1997 the overall season length (A and B seasons combined) has declined from 159 days to 75 days for the onshore sector, and from 103 days to 56 days for the offshore sector, a relatively similar decline for both sectors.
- In terms of catch and production over time, the onshore sector's share of the total increased from 26% to 34% under the existing allocations, while their actual tonnage has remained virtually unchanged. The true mothership share has increased over time from 9% to around 11.5% (in 1997), while the actual tonnage was a slight decrease. The offshore sector share declined from about 67% in 1991 to about 56% in 1997, while the actual tonnage declined significantly, by about 35%. The Table below summarizes the catch and relative shares over time, including a further breakdown of the offshore sector for the true motherships and for that portion of the offshore sector which is from catcher vessel deliveries.

Table E.1. Harvest of Pollock in Pollock Target Fisheries (Includes CDQ)

Industry Sector	1991	1994	1996	1997
C/Ps Own Catch	1,005,803	733,018	582,208	556,272
C/V Deliveries to C/Ps	22,436	35,031	63,386	44,612
C/P Total	1,028,239	768,049	645,594	600,884
True Motherships	144,138	113,077	121,959	123,571
Inshore (Shoreplants)	375,570	375,602	324,846	296,421
Inshore (Motherships&C/Ps)	32,372	48,519	70,696	58,370
Inshore Total	407,942	424,121	395,542	354,791
Grand Total	1,580,319	1,305,247	1,163,095	1,079,246

Table E.1 (Cont.). Harvest of Pollock in Pollock Target Fisheries (Includes CDQ)

Industry Sector	1991	1994	1996	1997
Inshore (Shorebased plants)				
% of Inshore	92.06%	88.56%	82.13%	83.55%
% of Total	23.77%	28.78%	27.93%	27.47%
Inshore (Motherships&C/P)				
% of Inshore	7.94%	11.44%	17.87%	16.45%
% of Total	2.05%	3.72%	6.08%	5.41%
Inshore Total	25.81%	32.49%	34.01%	32.87%
True Motherships				
% Offshore	12.29%	12.83%	15.89%	17.06%
% Total	9.12%	8.66%	10.49%	11.45%
Offshore C/Ps (All Processing)				
% Offshore	87.71%	87.17%	84.11%	82.94%
% Total	65.07%	58.84%	55.51%	55.68%
C/V Deliveries to Offshore C/Ps				
% of CP	2.18%	4.56%	9.82%	7.42%
% of Offshore	1.91%	3.98%	8.26%	6.16%
% of total	1.42%	2.68%	5.45%	4.13%
Offshore Total (C/Ps & True MS)	74.19%	67.51%	65.99%	67.13%

- Regarding the distribution of catch among catcher vessels, relative share for small catcher vessels (<125') overall has declined over time, from about 65% in 1991 to about 42% in 1996 - the number of catcher vessels in this 'small' category has increased from 71 in 1991 to 89 in 1996. Vessels from 125'-155' have increased in numbers over time (from 6 in 1991 to 20 in 1996) and catch share (from 14% in 1991 to 37% in 1996). Numbers (7 in 1991, 10 in 1994, 9 in 1996) and catch share (less than 20%) for the largest category of catcher vessels (>155') have remained fairly constant over this same period.
- For both inshore and offshore sectors, approximately 96% of the total pollock catch is taken in pollock target fisheries. In terms of pelagic vs bottom trawl mode (in target pollock fisheries), the inshore sector takes about 97% in pelagic mode, and the offshore sector takes about 91% in pelagic mode.
- NMFS published product recovery rates (PRRs) are currently utilized as part of the blend data in estimating overall catch for the offshore sector. PRRs were used for catch estimation for the inshore sector prior to 1992 (scale weights are now used). Catch estimation procedures are therefore different for the two sectors, but represent the best available information and are what is used to manage TAC attainment in the fisheries.
- Overall utilization rates, across all product forms, are calculated to indicate the amount of product derived from raw fish input. Utilization rates have changed over time, with improvement in both sectors, though the onshore sector utilization rates have improved more dramatically, from 23% in 1991 to 33% in 1996, while the offshore overall rate has gone from about 17% in 1991 to near 21% in 1996.
- Discard rates of pollock in pollock target fisheries are very low for all sectors - approximately 2.5% for offshore operations and around 1% for inshore and true mothership operations (1996 data). Future

economic discards of pollock are assumed to be zero due to provisions of the IR/TU program. Continued regulatory discarding may occur, but is not quantifiable without further experience under the IR/TU program, but is expected to be minimal overall.

- Prices used in the analysis are as follows:

The ex-vessel price for pollock delivered to inshore processors is \$0.085/lb, and was derived from the 1996 COAR data. The offshore price used in this analysis is \$0.0744/lb, and is based on 87.5% of the inshore price.

First wholesale prices for both the inshore and offshore sectors were derived from 1996 COAR data, except for the offshore mince price. Only one offshore processor reported a mince price in the 1996 COAR, and confidentiality standards do not allow that price to be reported. In that one case, data supplied by the At-sea Processors Association was used in the analysis.

- Because the offshore sector was not well represented in the COAR data, the At-sea Processor's Association provided data on 14 of their vessels to verify the offshore component of the COAR report. The results of that comparison showed that prices were almost identical in both the COAR and APA data. The COAR prices are reported in Table E.2.

Table E.2 First Wholesale Prices Reported by Alaska Processors

	Fillets&Blocks Skinless- Boneless &DeepSkin	Fillets&Blocks Skinless- Boneless	Fillets&Blocks DeepSkin	Roe	Surimi	Meal	Minced ¹
	\$/lb	\$/lb	\$/lb	\$/lb	\$/lb	\$/lb	\$/lb
Inshore							
1991	1.38			3.79	1.26	0.26	
1994		0.71	1.11	3.65	0.91	0.22	
1996		0.96	1.24	4.52	0.82	0.30	0.52
Offshore							
1991	1.38			4.66	1.58	0.25	
1994		0.71	1.11	5.79	0.94	0.22	
1996		0.96	1.24	6.03	0.86	0.29	0.42 ¹

Source: 1991, 1994, and 1996 COAR data.

Note: To protect the confidentiality of processors, fillet prices are based on combined inshore and offshore data.

Minced prices for 1991 and 1994 were not estimated.

¹ / The 1996 Offshore Minced price was provided by the At-sea Processors Association (APA) as only one At-sea company reported minced prices to ADF&G in the COAR. If APA and ADF&G data were combined the 1996 Offshore minced price would be \$0.45.

- Product mix is assumed throughout the analysis to remain proportional to the 1996 information. In summary, this is shown below, for major product forms, by sector:

Table E.3. Pollock Products Processed During 1996 (mt)

Inshore/Offshore Class	Surimi	Minced	Fillet/Block and IQF	Deep Skin Fillet	Meal	Oil	Roe
Catcher Processor Total	57,938	7,851	6,035	25,214	12,312	344	7,346
Shoreside Total ¹	71,349	2,626	9,229	7,442	27,864	8,514	4,417
True Mothership Total	21,992	-	-	-	5,016	353	1,075
Grand Total	151,279	10,478	15,263	32,657	45,192	9,211	12,838

¹ / The Shoreside total includes CDQ production. The other sectors do not include CDQ in this summary table.

- Regarding foreign ownership of pollock harvesting and processing operations, the inshore processing sector and the true mothership processing sectors exhibit a significant degree of non-U.S. ownership (primarily Japanese). Four of the six principle shorebased processors were affiliated with Japanese parent companies. The two other plants operating onshore were owned by the same US company. The two inshore motherships were both US owned. One of the three true motherships was US owned. The offshore catcher/processor fleet exhibits significant degrees of non-U.S. ownership (primarily Norwegian) though that also varies across companies and vessels. Overall, 20 catcher processors appear to have some foreign ownership, while the remaining 17 are fully US owned. The catcher vessel fleet is a mixed bag with 14 catcher vessels delivering inshore having some foreign ownership, and eight catcher vessels delivering to offshore processors having some foreign ownership.
- Employment information is contained in Appendix I, Tab 6 - an attempt was made to provide comparable information for both inshore and offshore sectors regarding total employment and relative degree of Alaskan employment. The information is not specific to pollock fishing/processing activities, though the information provided for the at-sea sector is only from member companies of the At-sea Processor's Association (APA), which are primarily pollock-intensive operations. While care should be taken in making direct comparisons of this information, it does illustrate an overall low level of Alaskan employment by both sectors - around 14% Alaskan residents for the onshore sector (overall) and around 8% for the offshore sector (APA companies).
- Overall bycatch of PSC species (by rate and by total volume) is quite low in the pollock fisheries, with the exception of salmon and herring, for all sectors involved. The 1996 fishery information illustrates the trade-offs associated with PSC bycatch when comparing the sectors. The catcher processor fleet, in general, had higher bycatch of halibut, herring, and crab species, while the inshore and true mothership sectors showed higher bycatch of chinook salmon. Looking at 'other' salmon specifically, the 'true mothership sector, takes 'other' salmon (primarily chum) at a higher rate than any other processing sector. While these trade-offs are reflected across the alternatives being considered, none of the alternatives is expected to significantly change the overall bycatch (by rate or volume) across PSC species.
- Regarding vessels which participated in BSAI pollock target fisheries anytime between 1992 and 1996, and which also participated (checked in or out) in Russian water fisheries, the information shows that 22 such vessels fished in Russia in 1992, only one did so in 1993 and one again in 1994, three in 1995, and 5 in 1996. All of these vessels were catcher/processors when they fished the BSAI pollock fisheries.
- Regarding state and local fish tax payments, both the onshore and offshore sectors pay such taxes. Some 'leakage' occurs where deliveries are landed outside Alaska, or transhipped overseas, and the tax is not applied. Primarily this leakage has occurred with the offshore catch landings tax (true motherships

included in this sector), and has run at about 16 to 18% of the offshore total catch (1996 and 1995 respectively).

Chapter 4

This Chapter contains the projections for the major allocation alternatives, including the expected amounts of each product (assuming proportions realized in the 1996 fisheries) under each primary allocations alternative and the gross revenue changes associated with each primary alternative (recognizing that the Council may choose any percentage within the ranges specifically analyzed).

Table E.4. reports the relationship between a 50,875 mt change in each sector's allocation (5% of the 1,017,500 mt CDQ-adjusted TAC) and the change in total gross revenue (both ex-vessel and first wholesale) and the products produced within the sector. All of the information reported in Table E.4 represents the change from the status quo allocation. Because the calculations are linear, the effects of other allocation amounts may be calculated easily using the information in the table. For example, an allocation that would grant a sector 7.5% more of the TAC would increase their revenues and products by 1.5 times those listed in Table E.4.

Table E.4. Changes resulting from a 5% shift in the BSAI Pollock TAC within each industry sector

	Inshore	True Mothership	Catcher Processor
% Change Within the Sector ¹	14.3 %	50.0 %	9.1 %
Raw Fish (mt)	50,875	50,875	50,875
Cat. Ves. Gross Rev. (ex-ves, \$ millions) ²	\$ 9.5	\$ 8.3	\$ 0.8
Gross Revenue (1st Wholesale, \$ millions)	\$ 30.1	\$ 26.8	\$ 27.1
Surimi (mt)	9,179	9,910	5,149
Minced (mt)	338	-	698
Fillet/Block and IQF (mt)	1,187	-	536
Deep Skin Fillet (mt)	957	-	2,241
Meal (mt)	3,585	2,260	1,094
Oil (mt)	1,095	159	31
Roe (mt)	568	484	653

1/ The percentage change within a sector is calculated as $((\text{status quo tons} + 50,875)/(\text{status quo tons}) - 1) * 100$. So, it represents the percentage increase that sector will receive.

2/ Only the catch delivered by catcher vessels is included for catcher processors.

Note: A 5% TAC decrease to a sector will result in numbers of equal magnitude, but with a negative sign

Also included are more qualitative assessments of various sub-options being considered. These include: (1) potential separation of 'true motherships' with their own allocation; (2) sub-allocation of the inshore quota to small (<125') catcher vessels; (3) sub-allocation of the offshore quota to catcher vessels delivering offshore; and, (4) options for the duration of the allocation (sunset alternatives).

In 1996, deliveries to the three true motherships accounted for about 10% of the BSAI pollock catch. The Council is considering allocating 5-15% of the BSAI TAC to this sector. There is still some question regarding who is classified as a true mothership. Under the strictest interpretation only about six vessels could be classified as true motherships, and this raises limited entry questions.

An allocation of 40-65% of the inshore quota is being considered for catcher vessels less than 125'. This roughly covers the range that subsector has taken over time (it has decreased to about 40% currently). This suboption could not be implemented in 1999. NMFS current catch accounting system will need to be modified before this allocation could be monitored. This does not mean the Council cannot consider this option, but actual implementation would be delayed beyond the January 1, 1999 start of I/O3.

A set aside of nine to 15% of the offshore quota is also being considered by the Council. In 1996, catcher vessels delivered about 10% of the pollock catcher processors processed (down to 7.4% in 1997). So, the low range of the allocation represents the catcher vessels largest historical percentage of pollock processed by offshore catcher processors. This allocation could be monitored in 1999 as long as there were no catcher vessel length restrictions associated with this allocation.

The Council may choose to keep I/O3 in effect until replaced by CRP. However, there is still a question of what is meant by CRP. The Council is also considering two potentially shorter allocations. A sunset date one year after implementation of I/O3 would require the Council to immediately begin analysis of I/O4. One additional year would likely not provide enough time to collect the necessary data and do a formal cost/benefit analysis. It would also create an unstable planning environment for the fleet. The three year sunset would likely resolve most of the problems associated with a one year allocation.

A new option was added to the Inshore/Offshore suite of alternatives call the "Harvester's Choice". This allocation would create a set-aside for catcher vessels less than 125' LOA (a second option would include catcher vessels 155' LOA or shorter in the set-aside). The set-aside would be created using 40-65% of the inshore quota, Nine to 15% of the offshore (catcher processor) quota, and 100% of the true mothership quota. Once the quota is placed in the set-aside, the catcher vessels would be allowed to deliver their catch (from the set-aside) to any processing sector. This will result in less pollock being guaranteed to each processing sector. However, depending on their success in purchasing pollock from the set-aside, they may be able to process more BSAI than they would have received under the initial allocation.

Including catcher vessels from 125' through 155' in the set-aside will likely reduce the benefits of this option for catcher vessels less than 125' LOA. Catcher vessels less than 125' LOA have had their share of the inshore quota reduced from 65% in 1991 to 42% in 1996. All of that reduction was the result of increased harvest in the 125' through 155' catcher vessel class. Catcher vessels greater than 155' harvested 19% of the inshore quota in 1991 and 1996.

According to NMFS the "Harvester's Choice" option could not be implemented in 1999. However, the Council may select this option with the understanding that NMFS would implement the set-aside when their in-season catch accounting system was changed to track catch at the harvest vessel level.

Chapter 5

This Chapter is devoted entirely to the CVOA options and includes historical fishing patterns relative to the CVOA and projections of CVOA fishing patterns under the alternatives. Major findings include:

- Pollock tend to be larger and have less size variation inside the CVOA.
- CPUE tends to be higher outside the CVOA.
- Increased pollock allocations to the offshore sector leads to less pollock catch in the CVOA relative to the status quo;
- During the A-season, excluding the offshore sectors (CVOA alternative 1), and offshore and true mothership sectors (CVOA alternative 2) from the CVOA yields *reductions* in A-season CVOA pollock

catches. Total CVOA catch is also reduced in every case except when only catcher processors are excluded under Alternative 3(D). In all the other options, the projections indicate that catch inside the CVOA is reduced 15-57%;

- During the A-season, no combination of allocation alternative or CVOA alternative leads to *increases* in A-season CVOA pollock catch greater than 6%. Therefore, even under the no CVOA option catch is projected to increase only slightly during the A-season;
- Predicting B-season removals from the CVOA under the No CVOA alternative is highly speculative regardless of the allocation alternative, and depend considerably on how the offshore fleet is distributed.
- In the B-season and for CVOA alternatives 1, 2, and status quo, *reductions* in CVOA pollock catches are predicted for those sector allocation alternatives that *increase* the offshore sector's allocation (except for the combination of sector alternative 3(C) and CVOA alternative 2);

Alternatives which require sectors to operate outside the CVOA during the A-season appear to have greater impacts during years when the ice edge is further south. In 1991 and 1994 the ice edge was about 200 nautical miles further south than during 1996. Those years almost all of the catcher processor's and catcher vessel's catch came from inside the CVOA. In 1996 the catch distribution was much closer to a 50/50 split inside and outside the CVOA. Forcing vessels to fish closer to the ice edge may also cause safety concerns.

Chapter 6

This is the Environmental Assessment (EA) and is primarily focused on marine mammal issues as they relate to the CVOA. Also included is a discussion of EPA considerations as they relate to the issue of air and water quality and processing discharges. Just prior to the April 1998 meeting, the NMFS issued guidance to the Council regarding pollock removals from the CVOA, which overlaps with critical habitat area for Steller sea lions. The gist of the NMFS guidance was that, whatever alternatives and options were selected by the Council, those should not result in a *proportional* increase in pollock removals from the CVOA. This draft of the analysis provides additional discussion regarding the definition of proportional (what is the baseline from which we would measure the relative change), and examines the possible combinations of alternatives and suboptions which would comply with this guidance. For example, basic allocation alternatives which might increase proportional CVOA removals can be offset by options which specifically limit harvests from the CVOA by sector and/or season. Additional general information on Steller sea lions, such as life history and feeding habits, is also included in Chapter 6.

Chapter 7

This Chapter contains a summary of economic implications of the alternatives, including E.O. 12866 considerations, and addresses other issues raised by the Council.

- Net benefit impacts are not quantifiable given the lack of cost data and other information. Gross revenue projections indicate very little change in overall gross revenues from the fisheries, under any of the alternatives. Impacts are expected to be primarily distributional in nature, with impacts to industry sectors being proportional to the allocation changes considered. With such small changes in gross revenues overall, net impacts to the Nation from any of the alternatives will not likely be significant under the provisions of E.O. 12866, which specify a \$100 (net) million annual effect on the economy as the trigger for a 'significant' action.
- Utilization rates, as previously summarized, have changed over time, with the onshore sector exhibiting a much higher overall utilization rate (and improvement over time) than the offshore sector. During I/O1, underlying (assumed) PRRs were a significant and contentious factor in the analyses, and were factored

into the analyses to arrive at overall net impact projections. The I/O2 analyses did not attempt to quantify net benefits, but did examine several primary parameters of the fisheries, including overall utilization rates (not to be confused with assumed PRRs). Based largely on improved utilization rates by the onshore sector from 1991 to 1994, the analysis for I/O2 projected that the original net loss estimates associated with the allocations were likely overstated.

- For the current analysis (I/O3), overall utilization rates are factored into the projections for product and gross revenues for each of the alternatives. The higher utilization rates for the inshore sector equate to a higher gross revenue per ton of raw fish for that sector, when compared to the offshore sector, and therefore results in slightly higher overall gross revenues from the fishery for alternatives which allocate more pollock inshore. However, these projections do not take into account relative production costs between the sectors. Higher utilization rates alone do not necessarily equate to 'highest value' from the fisheries. NOAA GC advice on this issue is that, while the Magnuson-Stevens Act does not dictate management measures based on achievement of higher product utilization rates, the Council may well consider this as a criterion in its decision process.
- Regarding excessive shares/capital concentration issues, there is little in the way of analysis directly focused on this issue. Relative share of the harvest and processing of pollock, by individual firms or vessels, cannot be published, though information of this nature is available in industry publications, has been referenced in public testimony before the Council, or is generally known. NOAA GC advice is that, because the inshore/offshore alternatives do not allocate fishing privileges to individual fishermen (or entities), and the alternatives do not directly result in acquisition of shares, National Standard 4 does not apply in the context of addressing a particular company's share of pollock harvest/processing (though Standard 4 does apply generally). Additional discussion of excessive share issues as they relate to the National Standards is contained in Chapter 7.
- Regarding progress toward overall Comprehensive Rationalization Planning (CRP), the place of I/O3 depends on the ultimate CRP goal - if it is some type of IFQ program then the allocations will likely serve to establish the 'playing field' for those allocations, at least among sectors, regardless of the specific percentages chosen. With an IFQ program at least 4 to 5 years away, due to the Congressional moratorium, continuation of the allocations would appear to constitute a critical 'holding place' for the fisheries. If an IFQ program is not the eventual goal, then the allocations are perhaps even more critical to defining the fishery. Regardless of the ultimate CRP solution, it would appear that continuation of the allocations (without prejudice to the percentages), is critical to orderly prosecution of the fisheries and a stable management environment.
- Regarding potential implications of the American Fisheries Act (currently proposed in Congress), enactment of this Act would result in a significant potential reduction in offshore sector capacity. As many as 15 vessels could be immediately impacted, with those vessels accounting for 32% of the total offshore catch in 1996 (21% of the overall pollock total in 1996).

Chapter 8

Chapter 8 contains discussions of consistency with other applicable laws, including: Magnuson Act, National Standards, and the Regulatory Flexibility Act. These assessments attempt to cover the range of alternatives, though some findings will depend on the alternative (and options) finally selected by the Council, and a more focused assessment may be necessary in certain areas.

- None of the alternatives appears to be inconsistent with the National Standards, based on the information available. Some of the more extreme alternatives would obviously create relatively greater impacts, in the context of all relevant National Standards, than would those alternatives closer to the status quo. For example, community stability and sustained participation (National Standard 8) is dependent, in many cases, on continued participation by all major industry sectors, both offshore and onshore. Separation and quantification of these contributions is difficult, and as noted above, finalization of this section may depend on the Council's final alternative.
- Section 303(a)(9) of the Act requires consideration of potential impacts to participants in the fisheries, and to other (adjacent) fisheries. Chapters 4 and 5, and other sections of this document address impacts to participants in the pollock fisheries. Chapter 8 contains information regarding potential impacts to other fisheries ('spillover effects'). While this information does not allow for conclusive statements regarding the likelihood or magnitude of such spillover effects, it is intended to assist the Council and other reviewers by providing background information relative to this issue.

Included in that Chapter is the following: (1) information on the operational capacity and capability of vessels/processors operating in the pollock fisheries; (2) patterns of entry and exit in the pollock fisheries over time; (3) profiles of vessel/processor activity in alternative fisheries over time; (4) detailed information on the 1997 fishing activities by vessels/processors involved in pollock fisheries; (5) value estimates for other species (intended to provide insights on 'replacement' potential of other species for lost pollock opportunities); and, (6) discussion of the potential for spillover and possible mitigating measures. The analysis recognizes the potential for lost pollock opportunities to be replaced, to some extent, by alternative fisheries such as yellowfin sole and Atka mackerel, which are primary targets of the H&G factory trawl fleet. Mitigating measures could include additional stand-down provisions to reduce the potential incursion into these fisheries by 'pollock' vessels. Stand-down measures could probably be implemented, if desired, in time for the 1999 fisheries. Species endorsements in the Council's LLP are another measure that could potentially address this issue, though that proposal has previously been discussed and rejected by the Council.

- Section 303(b)(6) requires certain specific analysis when considering limited entry programs. The creation of a 'true mothership' category, limited only to those operations which "have processed, but never caught" pollock in the BSAI, would create a limited entry program (the three existing true motherships and four others would appear to be the only eligible operations). While much information relative to the 303(b)(6) requirements is included in the document, it will be up to the decision makers (Council and SOC) as to whether it is sufficient to choose this alternative. Additional alternatives, including requiring operators to declare each year (or for the duration of the allocations) have been included which may accomplish the goals of the Council without creating a limited entry program.
- The Regulatory Flexibility Act (RFA) requires analysis of impacts on small entities, and determination of whether management actions would 'significantly impact a substantial number of small entities'. Significance can be triggered by a reduction in revenues of more than 5%; a substantial number is defined as more than 20% of the affected universe of small entities. It appears that all BSAI pollock harvesters and processors would be classified as small entities for RFA purposes, based on existing interpretations of the Regulatory Flexibility Act. Some of the alternatives under consideration would be expected to decrease revenues (relative to the status quo) by 5% or more for a substantial number of operators, and therefore would be considered 'significant' actions under the RFA. A revised analysis, based on the Council's Preferred Alternative, must accompany the Council's submittal to the Secretary of Commerce.

MEMORANDUM

TO: Chairman and members of North Pacific Fishery Management Council

FROM: Rich Marasco, Jack Tagart, Seth Macinko, and Chris Oliver

DATE: March 6, 1998

SUBJECT: Formulation of Agreed-Upon-Procedures for data review by CPA firm

At your February 1998 meeting the Council established a small Committee to come up with Agreed-Upon-Procedures, and provide guidance on selecting a CPA firm, to conduct a review of employment and price data submitted by At-sea Processor's Association (APA) relative to the inshore/offshore 3 analyses. The Committee consisted of one representative each from NMFS (Rich Marasco), WDF (Jack Tagart), ADF&G (Seth Macinko), and the Council (Chris Oliver). This memo is to summarize for the Council the steps taken, and issues identified, in this process.

We met on February 17 in Seattle, with Ed Richardson and Paul MacGregor in attendance to provide the Committee with necessary details on the data being collected from APA member companies. Representatives from the firm Kueckelhan Crutcher and Co. were also in attendance, at the request of Council staff. It was recognized by the Committee that this particular firm was disqualified from actually conducting the review work due to their existing business affiliations with several of the seafood companies involved. However, the Committee needed some accounting expertise to help develop the Agreed-Upon-Procedures for that data review. Bryce Morgan, Suzanne Schiffler, and Jana Brady were very helpful in that regard, enabling us to come up with those procedures (attached). These procedures are intended to verify the accuracy of the information submitted, as well as to verify that all of the relevant data was indeed submitted.

Following that meeting these same persons were helpful in putting Council staff (Chris Oliver) in contact with two alternative accounting firms (Knight Vale and Gregory; and, Rebar and Associates) who both verified that they had no affiliation with the seafood companies involved, and were able and willing to take on this project during the peak of the tax accounting season. A list of seafood companies was provided to these companies and they provided written confirmation that they did not have business ties to any of them (attached). After verifying the 'eligibility' of these firms, we felt the decision of which firm to employ should be left to APA, who would be paying for the data review. After receiving bids from both firms, APA made the decision to employ the firm of Rebar and Associates for this project. It is our understanding that they will conduct this data review in late March and early April.

Following are additional thoughts from the Committee regarding this process and the information to be collected:

1. While information across a range of years (1991-1996) would be ideal, it is likely that the timing of this process will limit the useful data to 1996. APA efforts thus far have been focused on 1996 and 1997, though Council staff will primarily utilize 1996 data for comparability to other sector information.
2. Price data is focused on first wholesale (prices received by at-sea processors for various products), though some exvessel, over-the-side delivery price information may be collected through this process as well (this is prices paid to fishermen and may be useful for the analysts). While the Committee did discuss exvessel, over-the-side delivery prices, and expressed a desire for such information, we did not formalize procedures for review of exvessel price data by the CPA firm. While it could be subjected to procedures similar to those for first wholesale price data, it is our understanding that any exvessel price information would be provided to Council staff, who would compare this information to previously collected exvessel price information and determine whether and how to incorporate it into the analysis.
3. It appears that employment information, in the form of Social Security #s, will be submitted by APA for Alaskan residents, but maybe not for the remaining work force. The Committee recommended that all SS #s be submitted, so that the information reflects total employment and both the absolute number of Alaskan employees and the relative number.
4. The Committee discussions raised the issue of verifying that all data submitted to the CPA firm were the same data submitted to Council staff for use in the analyses. As such, the Procedures call for the accounting firm to summarize the employment and price data they receive in order to cross-check with the data received by Council staff to make sure the totals agree.
5. Additional procedures were identified by the Committee which could be conducted by Council staff (and Washington Department of Labor), outside of the CPA firm, to help verify that all relevant data was received (as opposed to selected data). First, once SS#s are received, they could be given to the Washington Department of Labor to cross-check any total wage information contained. Secondly, the price data (which includes total fish poundages) can be compared by Council staff against the weekly production report information for those companies for the year(s) involved.
6. Timelines involved are very tight - it is expected that the price information will be submitted to both the CPA firm and Council staff by mid-March, in order to incorporate it in the analyses. Employment information will be used 'as is'; i.e., it will not factor further into the analyses, and so needs to be submitted by late March. In either case, the Council staff will likely have to use the information submitted, while the 'audit' procedure is on-going, in order to get a document drafted and mailed to the Council family for review in early April. Any discrepancies found in the 'audit' procedure (which would be completed in early to mid-

April) would have to be dealt with in a supplemental, or revised, analysis. This is not expected to delay the Council's review and decision process, according to Council staff.

7. Following on the point above, the Committee recognizes that if the information is not submitted to the Council staff in time (mid-March for the price data and late March for the employment data), existing data, though incomplete, will be utilized by the analysts. If the data is submitted and reviewed by mid-April, the analysts would be able to report to the Council (at the April meeting) regarding any changes implied to the analysis based on the 'audited' information.

Agreed-Upon Procedures

Related to employees and wages:

1. Agree each Companies' total 1996 wages provided by APA, to the respective Company's Form W-3.
2. Agree each Companies' total number of employees for 1996, provided by APA, to the total number of Forms W-2 reported on the respective Company's Forms W-3.
3. If the Companies' data provided by APA does not agree to the Forms W-3 by 5%, then ask the Company to reconcile the data to Form W-3.
4. From the data provided by APA, randomly select 10% of each Companies' employees and for those employees performing the following:
 - a. Agree each employee's social security number and their total annual wages for 1996 to Form W-2.
 - b. Agree each employee's social security number, job classification and vessel identification number to the information in their personnel file.
5. Summarize differences found in a confidential format.

Related to Revenue information (this will be prices received for first wholesale transactions - information on prices paid, for exvessel, over-the-side deliveries may be collected through this process, but will be handled separately by Council staff)

1. Agree each Companies' 1996 total revenue, provided by APA, to the respective Companies' general ledgers and audited/reviewed financial statements (or tax returns, if no audited or reviewed financial statements). For Companies with fiscal year ends, agree the 1996 revenue to the total of the monthly revenues in the general ledger, and agree the fiscal year end revenue to the audited/reviewed financial statements or tax returns. NOTE that where foreign currencies are used, the conversion to U.S. dollars will be based on prevailing exchange rates as of the date of transaction on the invoice.
2. If the Companies' data provided by APA does not agree to the general ledgers by + or - 5%, then ask the Company to reconcile the data.
3. For each Company, select the largest invoices representing at least 10% of the total revenue for 1996 and then randomly select 10% of the remaining invoices for each year.
4. For each invoice selected in #3 above, agree the species, grade, quantity, price, and shipping terms provided by APA to a copy of the Companies' invoice, and ensure that the fish sold is Alaskan product.
5. Summarize differences found in a confidential format.

Additionally, for both employment and price data, the accounting firm would be required to provide to the Council a summarization of the employment and price totals from the spreadsheet information provided by APA - this is to help reconcile that the Council staff received the same information from APA as did the accounting firm. Finally, it would be expected that the end product of this exercise would be a letter from the accounting firm summarizing the results of the data examination and specifying any discrepancies found.

North Pacific Fishery Management Council

Richard B. Lauber, Chairman
Clarence G. Pautzke, Executive Director



605 West 4th Avenue, Suite 306
Anchorage, AK 99501-2252

Telephone: (907) 271-2809

Fax (907) 271-2817

February 27, 1998

Mr. Robert Hanson
REBAR and Associates
4727 44th Ave. S.W., Suite 201
Seattle, WA 98116

VIA FAX - 206-933-0381

Dear Mr Hanson:

My assumption that At-sea Processors Association (APA) would be using another accounting firm may have been premature. I understand that both your firm, and the firm of Knight Vale and Gregory, have submitted bids to APA for the data review in question. As Ed Richardson probably made you aware, our Council has an oversight role in this process, in terms of drafting the Agreed-Upon-Procedures and selecting (or affirming) the firm to actually conduct the data review. Because APA might choose your firm for this project, I do need written confirmation that your firm has no business linkages to the seafood companies listed below. I appreciate your prompt reply to this inquiry. Thank you in advance.

Sincerely,

Chris W. Oliver
Deputy Director

LIST OF MAJOR COMPANIES INVOLVED IN THE POLLOCK INSHORE/OFFSHORE ALLOCATION:

Onshore Plants

Westward Seafoods
Trident Seafoods
UniSea
Alyeska Seafoods
Peter Pan Seafoods
Northern Victor Partnership

Floating Motherships

Golden Alaska
Excellence
Ocean Phoenix

Offshore catcher/processors

American Seafoods
Tyson Seafood Group
Alaska Ocean Seafood, Inc
Alaska Trawl Fisheries, Inc
Arctic Storm, Inc
Glacier Fish Co
Highland Light, Inc
Starbound Limited Partnership

**REBAR
& ASSOCIATES***Accountants and Consultants*4727 - 44th Ave. S.W., Suite 201
Seattle, WA 98116

(206) 938-2906 FAX 938-0381

February 27, 1998**Mr. Chris W. Oliver
North Pacific Fishery Management Council****Dear Chris:****Our firm (Rebar & Associates) has no business involvement with any of the companies listed in your inshore/offshore allocation letter.****Sincerely,****Robert A. Hanson, CPA****RAH:vir**

REBAR ASSOCIATES

Accountants and Consultants

4727 - 44th Ave. S.W., Suite 201
Seattle, WA 98116

(206) 938-2906 FAX: 933-0381

To the Board of Directors
At-Sea Processors Association
4039 - 21st Ave. West, Suite 400
Seattle, WA 98199

To Members of
North Pacific Fishery Mgmt Council
605 West 4th Ave., Suite 306
Anchorage, AK 99501

This letter is to explain our understanding of the arrangements for, and the nature and limitations of, the services we are to perform for At-Sea Processors Association with respect to certain agreed-upon procedures discussed below.

The specific procedures to be performed are as follows:

Payroll Procedures

We will select a non-statistical random sample representing 10% of each members' employees taken from payroll data disks provided to us by At-Sea Processors Association. We will also select a non-statistical random sample representing 10% of the combined member employees designated as Alaska Hire Initiative. From the APA payroll data disks, we will agree Social Security numbers, wages, job class, vessel number, and state code back to supporting documents contained in personnel files and payroll data files contained at the members' offices.

We will also agree to within 5% the total wages and number of employees from the APA payroll data disks for each company back to each company's federal Form W-3.

In addition to the procedures performed on individual employee records as described above, we will agree certain totals from the APA data provided to us back to the final APA report submitted to the council. These include total wages for all companies back to the APA report, total employees for all companies back to the APA report, total payroll by job category back to the APA report, and total payroll by state back to the APA report.

The payroll data files, once given to us, will remain under our control at all times until the project is completed.

Revenue Procedures

We will select a non-statistical random sample representing 10% of total invoices for 1996 and 1997. In addition, we will select, for testing, those invoices which total 10% of a company's total revenue. From the invoices, we will agree species, type, weight, price, and shipping terms, from invoice or credit memo, back to APA report.

We will also agree the total sales from the APA report to within 5% of the company's financial statement, or monthly general ledgers if a fiscal year-and company.

**REBAR
ASSOCIATES**

At-Sea Processors Association

**April 17, 1998
Page 3**

Disputes other than non-payment of fees arising under this agreement shall be submitted to mediation. Each party shall designate a representative empowered to attempt to resolve the dispute. Should the designated representatives be unable to agree on a resolution, a competent and impartial third party acceptable to both parties shall be appointed to mediate. Each disputing party shall pay an equal percentage of the mediator's fees and expenses. No suit or arbitration proceeding shall be commenced under this agreement until at least 60 days after the mediator's first meeting with the involved parties. In the event that the dispute is required to be litigated, the court shall be authorized to assess litigation costs against any party found not to have participated in the mediation process in good faith.

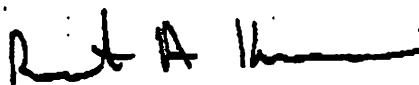
Any additional procedures you wish to have performed will be submitted to us in writing. The above fee arrangement does not include any services which require testimony either in Washington or Alaska.

If the foregoing fairly sets forth your understanding, please sign the original of this letter in the space indicated and return it to us in the envelope provided. A copy is also enclosed for your files.

It is a pleasure for us to provide this service to you.

Rebar & Associates

Sincerely,



Robert A. Hanson, CPA

RAH:vir

Acknowledgement:

At-Sea Processors Association

North Pacific Fishery Mgmt Council

Name

Dr. Clarence G. Pautzke

Title

Executive Director

Date

Date



333 First Avenue West / Seattle, WA 98119 USA / 206-286-8584 / FAX: 206-286-8810 / TELEX: 49612854 PRMPAC

April 30, 1998

Mr. Rick Lauber, Chairman
Dr. Clarence Pautzke, Executive Director
North Pacific Fishery Management Council
605 W 4th Avenue, Suite 306
Anchorage, Alaska 99501-2252

Dear Sirs,

Enclosed are responses from the true motherships to a request for more information from Mr. Michael Galginaitis of Applied Sociocultural Research. It was suggested in his letter to us that we send our response through the NPFMC so that it becomes part of the record and that you would then send the letter on to him.

I have turned Mr. Galginaitis's letter into a series of questions and answers as I think that this format was the clearest. If I missed any questions or if clarification is needed please advise and I will be most happy to help.

QUESTION: FTE is for both A and B pollock seasons but not for PW?
ANSWER: True

QUESTION: Did we combine people to make one FTE?
ANSWER: Yes

QUESTION: How many hours is one FTE?
ANSWER: 960 (80 days * 12 hours per day, 60 processing days and 20 transit days)

QUESTION: How many total employees did we have A and B season that made up the 410 onboard FTE's, 33 Management and 91 on Catchers.
ANSWER: This is hard for us to quantify, especially on the catchers. On the Ocean Phoenix for example we have subtractions but not additions in season as we don't come to port but some folks quit. Between season's turnover in our sector is very, very low. In 1997 as a group we experienced about 10% turnover

between A and B season. Our collective estimate is that in 1997 about 450 individuals ran through the 410 FTE positions onboard the processors. For management, no turn over. For catchers – we don't know. Turnover on the catchers is even lower than on the processors. Our best guess is that 95 people went through the 91 FTE's on catchers.

QUESTION: Range of pay

ANSWER: 1997 onboard average for A and B season FTE was \$50,479. The range was between \$130,000 for top and 16,000 for the bottom. We do not have this information on management. On the catchers the average was \$90,605 FTE. A typical captain's share would have been about 10% and each deckhand about 5% for a total of 30% (these are net of fuel and grocery charges). Therefore the top end would be \$166,000 and the bottom \$83,000. It must be stressed that each catcher is a small business in and of itself and their arrangement for compensation may deviate from the norm.

QUESTION: Average wage for catchers.

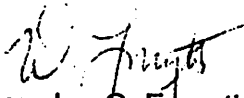
ANSWER: 30% is the net pay for catchers, gross is more like 40% so the figures we have used are net.

QUESTION: Other states of residence and other years besides 1997.

ANSWER: We have not compiled this data.

I hope that this information answers all of the questions in the letter.

Sincerely Yours,



Douglas C. Forsyth
Vice President
General Manager

**PREMIER
PACIFIC
SEAFOODS**

333 First Avenue West / Seattle, WA 98119 USA / 206-286-8584 / FAX: 206-286-8810 / TELEX: 49612854 PRMPAC

May 26, 1998

Mr. Rick Lauber, Chairman
Dr. Clarence Pautzke, Executive Director
North Pacific Fishery Management Council
605 W 4th Avenue, Suite 306
Anchorage, Alaska 99501-2252

RECEIVED
MAY 28 1998
N.P.F.M.C

RE: True Mothership Data

Dear Mr. Lauber and Dr. Pautzke,

One of the questions that were posed at the April Council meeting was the makeup between true motherships and factory trawlers of the "tax leakage phenomena". Since the true motherships are currently less than four in number I understand that it is not possible for a government body to disclose what is essentially proprietary information. We however can provide this information from our side since it is done voluntarily.

The subject of controversy is the concept of tax "leakage". The Fisheries Resource Landing tax only applies to fish landed in the state. If fish is not landed it isn't taxed by the state. When a factory trawler or mothership delivers its own product to market rather than shipping it on a common carrier its cargo "leaks".

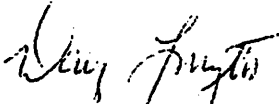
In 1996 the leakage phenomena was about 16% of the total potential landing tax that could have been collected if all of the offshore fish was landed in the state. Of that 16% leakage factory trawlers accounted for about 13.3% and true motherships about 2.7%. This calculation was determined by taking the true mothership tax savings and subtracting it from the 16% total to arrive at the factory trawler leakage. I have been told that this analysis is consistent with the Analysis that the State of Alaska has done independently.

In 1997 the three true motherships paid a total from all sources of \$1.23 million in Alaskan State taxes. This is double the amount of tax that would have been paid relying on the Fisheries Resource Landing Tax alone. The true

motherships do other processing in the State that add value to the tax base beyond participation in offshore fisheries. When we operate in state waters we pay a rate of 5% (Fisheries Business Tax) which is higher than the 3% that the shore based plants pay. The statement that motherships do not pay taxes is simply not true.

The most important aspect of the true motherships is not the processing ships but is rather the fleet. We have 19 catcherboats that are the last of the joint venture fleet. All of these boats are less than 125 feet in length. They are all very long-term participants in the fishery – much, much longer than factory trawlers and in most cases predate the existing Dutch Harbor shoreplants. This fleet of small boats is 100% dependent upon the State. They buy fuel, groceries, spare parts, lay up their boats, etc. all in the state. They are the pioneers of the groundfish industry in Alaska and are embodied in the true mothership sector of the industry.

Sincerely Yours,



Douglas C. Forsyth
Vice President
General Manager
PREMIER PACIFIC SEAFOODS, INC

ALYESKA OCEAN, INC.

May 26, 1998

Anacortes Marina Building - 2415 T Avenue
P.O. Box 190 - Anacortes, Washington 98221
Tel (360) 293-4677 Fax (360) 293-6232

Mr. Richard Lauber, Chairman
North Pacific Fishery Management Council
P.O. Box 103036
Anchorage, Alaska 99510

RECEIVED

MAY 27 1998

Re: Agenda Item C-1 - Inshore/Offshore - Alternative 4

Dear Mr. Lauber:

N.P.F.M.C

I am writing on behalf of the Auriga/Aurora General Partnership to express our strong opposition to Alternative 4. The Partnership is composed of 15 members, all of whom are citizens of the United States. The Partnership is located in Anacortes, Washington, and owns two vessels, the AURIGA and the AURORA. Both vessels were built in Moss Point, Mississippi in 1981, as offshore supply vessels. Both vessels have a registered length of 175.7 feet.

We acquired the vessels from the Maritime Administration in 1987, and brought them to Dakota Creek Industries shipyard in Anacortes for conversion to catcher vessels. The conversions, which cost over \$1.8 million, were completed in early 1988. Following the conversions, the vessels entered their current employment, which is the harvesting of pollock in the Pacific Ocean and the Bering Sea. Each vessel has a loadline certificate; each vessel is classed by DNV; and each vessel operates with three licensed officers. The vessels usually deliver their catch to shoreside processors, principally in Dutch Harbor, Alaska.

Alternative 4 would adversely and unfairly affect our vessels, by retroactively restricting their access to a certain portion of the Bering Sea pollock resource, based on the vessels' size, and by prohibiting us from determining the processing sector in which we market the vessels' catch. As we understand the Alternative, a fixed percentage of the pollock TAC would be set aside for vessels measuring less than 125 feet. Vessels exceeding that length would be denied access to that portion of the harvest and, furthermore, would be prohibited from delivering their catch to any processors other than shoreside processors. There is simply no rational basis for such a scheme, and such a scheme cannot withstand scrutiny under the National Standards of the Magnuson-Stevens Fisheries Conservation and Management Act.

NATIONAL STANDARD 1. *Conservation and management measures shall prevent overfishing while achieving, on a continuing basis, the optimum yield for each fishery*

Implicit in the concept of Optimum Yield, and indeed in the very title of the Act itself, is the principle that measures undertaken by the Council must enhance both management and conservation of the resource. Alternative 4 actually runs counter to both.

MANAGEMENT. With respect to management, Council staff, in its Draft Analysis, notes that assigning a set aside based on vessel size will require major changes the NMFS's current system of monitoring and hence managing the resource. In addition, the beneficiaries of the set aside would be vessels which are subject to an observer requirement of 30% at most; many have no observer requirement at all. The National Marine Fisheries Service recently has informed Congress that

Small boat fleets can overfish a resource as effectively as a large boat fleet if the fishery management infrastructure does not provide sufficient monitoring and harvest control measures. . . . Unless observer coverage requirements are changed to require greater observer coverage on smaller vessels, a redistribution of catch to the smaller vessel fleet . . . would result in a smaller percentage of harvest being observed. . . . As a result, the overall monitoring program for the Alaska groundfish fleet could be diminished if the existing quality and quantity of catch data is eroded.¹

CONSERVATION - THE SIZE ISSUE. Any effort to characterize Alternative 4 as a conservation measure requires the assumption that big boats are bad for conservation and small boats are good for conservation. Unfortunately for the proponents of the Alternative, the empirical data are to the contrary. Again, the National Marine Service provided to Congress some informative and helpful comments on this issue:

- ◆ Fishing in general does have impacts on U.S. fisheries, but they are not necessarily linked to the size of vessels deployed in a particular fishery.
- ◆ The size of a vessel does not necessarily reflect its fishing capacity.
- ◆ It is our understanding that vessel size is not necessarily a key factor in explaining why boats overfish the resources, nor are large boats disproportionately responsible for

¹ National Marine Fisheries Service responses to supplemental questions from the Senate Commerce Subcommittee on the Ocean and Fisheries with respect to S. 1221 at page 15. (NMFS's responses are cited hereinafter as NMFSR.)

bycatch problems.

- ◆ The menhaden fishing industry, for example, typically uses large vessels ranging from 140 feet to 180 feet; studies indicate that it is a relatively clean fishery with little bycatch.
- ◆ Redistribution of fishing effort to predominately smaller vessels that may rely on more bottom trawl gear could make observer coverage more difficult and would increase concern with bycatch.²

CONSERVATION - THE LOCATION ISSUE. While shifting fishing effort to smaller vessel would not, as demonstrated above, have positive conservation effects, it may well have negative ones. The Draft Analysis correctly notes that smaller vessels are constrained by their size and hold capacities to fishing relatively close to shore. The Draft Analysis also correctly cautions that Alternative 4 raises serious concerns as to the possibility of overfishing in areas where the beneficiaries of the set aside fish. A further concern raised by the Analysis is the ceiling that NMFS has placed on removal of fish from the CVOA. The Analysis demonstrates that Alternative 4 would result in that ceiling being exceeded.

In summary, Alternative 4 enhances neither management or conversation of the pollock resource and thus does not even meet the philosophical underpinnings of National Standard 1.

NATIONAL STANDARD 4. *Conservation and management measures shall not discriminate between residents of different states. If it becomes necessary to allocate or assign fishing privileges among various United States fishermen, such allocation shall be (A) fair and equitable to all such fishermen; (B) reasonably calculated to promote conservation; and (C) carried out in such manner that no particular individual, corporation, or other entity acquires an excessive share of such privileges.*

THE FAIR AND EQUITABLE REQUIREMENT. It is impossible to view Alternative 4 as fair and equitable. First, without rational basis, it carves out a portion of the resource for harvest by a segment of the industry that has not even been able to realize a harvest of that size since 1991. Secondly, it does so retroactively at the expense of other segments of the industry, again with no rational basis. Thirdly, and once again without rational basis, it forecloses larger vessels from accessing any market other than the inshore processing sector.

² *Id.* at pages 1, 5, 10, 11.

The Guidelines with respect to this National Standard state that an allocation of fishing privileges should be rationally connected to the achievement of Optimum Yield or with the furtherance of a legitimate FMP objective. Alternative 4 fails both these requirements.

THE CONSERVATION REQUIREMENT. The discussion with respect to National Standard 1 amply demonstrates that Alternative 4 is in no way calculated to promote conservation and, indeed, would be detrimental to it. Furthermore, the National Guidelines for this Standard cite as an example of a measure that promotes conservation one that encourages a rational, more easily managed use of the resource. As stated, Alternative 4 would make the resource considerably *less* manageable.

THE EXCESSIVE SHARE PROHIBITION. NMFS has taken the position that this prohibition applies only to limited entry programs and cannot have relevance in a derby system,³ and the Draft Analysis relies on this position in concluding that Alternative 4 would not run afoul of the prohibition. However, the statutory language in no way compels such a narrow application. We believe that a prohibited excessive share can arise in a management program which allocates to one sector of the industry more of the resource than it can harvest, while capacity to harvest that share exists in other sectors of the industry. This would be precisely the result of Alternative 4 - the small-vessel sector would be allocated more fish than it has harvested in the past 6 years, while other sectors would be denied access to that fish.

The National Standard Guidelines also specify that an excessive share can arise when an allocation scheme "creates conditions fostering inordinate control, by buyers or sellers, that would not otherwise exist." The Draft Analysis explains that this Standard is designed to avoid a situation in which there are fewer and fewer participants in a market, allowing the remaining participants to cause market distortions. Alternative 4 would lead to precisely this result, in two ways. First, the Alternative would limit larger vessels to one market - the inshore processing sector. These vessels would be foreclosed from shopping other processing sectors; because there would be fewer potential buyers, the buyers who remain harvest would have inordinate control of the prices paid for the fish. On the other hand, the smaller vessels would have a guaranteed set aside which they and only they could market in any sector, giving them inordinate control of the prices they command for their fish.

NATIONAL STANDARD 5. *Conservation and management measures shall, where practicable, consider efficiency in the utilization of fishery resources; except that no such measure shall have economic allocation as its sole purpose.*

EFFICIENCY. Alternative 4 flies in the face of this requirement. As the Draft Analysis

³ NMFSR at page 43.

Mr. Richard Lauber
May 26, 1998
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notes:

Circumstantial evidence exists that catcher boats under 125' are, perhaps, less operationally efficient than larger vessels, given that their total share of the inshore pollock catch has declined rather markedly over the period of analysis, even as their numbers have increased.

Catcher boats under 125' are, in general, less mobile, e.g., have a shorter range of operation; have a smaller capacity to carry catch; and are more operationally constrained by weather, sea conditions, and ice than are larger vessels. To the extent that a relatively "greater" share [of the catch than was taken by these vessels in 1996 or 1997] is reserved for boats under 125', one might expect the . . . BSAI pollock target fishery to slow.

Nonetheless, Alternative 4 would set aside a portion of the resource for what is arguably the least efficient sector of the industry.

Even more insidious is the inevitable outcome of such an allocation. The owners of these vessels will not be content to take their allocation slowly; after all, they will still be competing with each other. There can be no doubt that these owners will engage in capital stuffing, further exacerbating the overcapitalization of the industry. Under the Moratorium many of these vessels can actually undergo size increases, and there is nothing in the Moratorium to prohibit increases in horsepower or other devices to increase harvesting capacity.

ECONOMIC ALLOCATION. These comments clearly demonstrate that Alternative 4 does nothing to promote conservation, and nothing to enhance the management of the resource. There is no question the Alternative is nothing more than an economic allocation.

Thus, Alternative 4 once again runs contrary to this National Standard and to the very purposes of the Act itself.

NATIONAL STANDARD 7. *Conservation and management measures shall, where practicable, minimize costs and avoid unnecessary duplication.*

Please see the discussion above concerning the fact that Alternative 4 will lead to capital stuffing and hence to duplication of fishing capacity.

NATIONAL STANDARD 10. *Conservation and management measures shall, to the extent practicable, promote the safety of human life at sea.*

Mr. Richard Lauber
May 26, 1998
Page 6

Alternative 4 would set aside a portion of the resource for that sector of the industry which has the least indicia of safety. Unlike larger vessels such as the AURIGA and the AURORA, these vessels are not likely to be operated by licensed officers. They are not likely to be classed. They are not likely to have loadline certificates and many of them (those under 79') are not even required to meet the lesser stability requirements of 46 CFR Part 28 Subpart E.

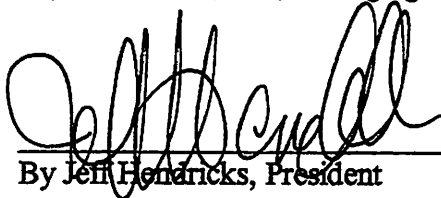
It is difficult to see how a special allocation to this group of vessels can be viewed as *promoting* the safety of human life at sea.

* * * * *

For all the above reasons, the Auriga/Aurora Partnership urges the Council to give no further consideration to Alternative 4, or, for that matter, to *any* allocation scheme based on vessel size.

AURIGA/AURORA GENERAL PARTNERSHIP

Alyeska Ocean, Inc., Managing Partner


By Jeff Hendricks, President

Anacortes Marina Building - 2415 T Avenue
P.O. Box 190 - Anacortes, Washington 98221
Tel (360) 293-4677 Fax (360) 293-6232

May 29, 1998

Mr. Richard Lauber, Chairman
North Pacific Fishery Management Council
605 West 4th Ave., Suite 306
Anchorage, Alaska 99501-2252

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N.P.F.M.C

Re: Agenda Item C-1 – Inshore/Offshore

Dear Mr. Lauber:

Alyeska Ocean, Inc. is the managing owner of Alaska Ocean Seafood, Limited Partnership, which operates the factory trawler ALASKA OCEAN, and managing owner of the Auriga/Aurora General Partnership, which operates the shoreside RSW trawlers AURIGA and AURORA. All three vessels have been operating over 8 years in the BSAI pollock fisheries.

In behalf of the above partnerships, we would like to submit that, as a step towards rationalization of the BSAI pollock fishery, the Council should establish three separate sector allocations:

CATCHER PROCESSORS

MOTHERSHIPS

SHORESIDE

Catcher vessels that do not process are free to deliver to any of the processing sectors as long as the season is open for that sector and any such catch would be counted toward that sector allocation. (Status quo for catcher vessels)

Within the same calendar year, a catcher processor may not also act as a mothership or catcher vessel.

Mr. Richard Lauber, Chairman
May 29, 1998
Page 2

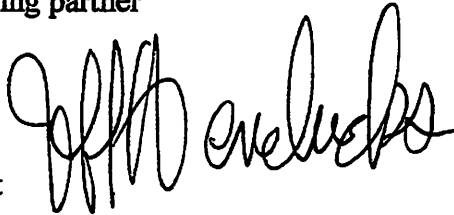
Each of the above sectors has significant operational differences but processing is the common denominator. Separate allocations among these sectors would provide greater accountability and opportunity for each sector to minimize bycatch and optimize yield.

Catcher vessels should be free to deliver to any sector. Any further subdivision of allocation between large and small catcher vessels, catcher vessels that deliver to catcher processors or to other catcher vessel set asides would be without basis, counter productive toward rationalization and self serving at the expense of the other participants. Furthermore, allocations based on extended catcher vessel history are distorted by vessel ownership changes to owners with little or no catch history. Owners and operators with the greatest catch history may well be the owners and operators of the newest and largest vessels.

ALASKA OCEAN SEAFOOD, LP
AURIGA/AURORA GP

Alyeska Ocean, Inc., Managing partner

By Jeff Hendricks, President

A handwritten signature in black ink, appearing to read "Jeff Hendricks". The signature is written in a cursive, flowing style with some loops and flourishes.

Bristol Bay Economic Development Corporation

P.O. Box 1464 • Dillingham, Alaska 99576 • (907) 842-4370 • Fax (907) 842-4336 • 1-800-478-4370



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June 2, 1998

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N.P.F.M.C

Chairman Richard B. Lauber
North Pacific Fishery Management Council
605 West Fourth Ave., Suite 3006
Anchorage AK 99501

RE: Inshore / Offshore 3 Comments

Dear Mr. Chairman,

BBEDC is one of the six CDQ groups participating in the pollock CDQ program. BBEDC was a respondent to the McDowell survey, and limits its comments on Inshore / Offshore 3 to that document.

BBEDC conducted extensive Request for Proposals processes in 1992 and 1995 to choose pollock partners for the 1992-1995 and 1996-1998 periods. We are reasonably familiar with a large segment of the affected industry. The Board chose an offshore partner based primarily on employee earnings potential, desirability of employment, a competitive royalty offer, and strict drug and alcohol controls.

BBEDC invested in a mid-sized surimi trawler in 1996, shortly after "industry stability" became the watchword for the Council. We have participated as an owner since. BBEDC will be directly impacted by the Council's decisions regarding this allocation.

BBEDC Recommendation



The McDowell Report is an inadequate analysis of the impact of a pollock reallocation on CDQ groups. While we appreciate the effort made by the authors, their lack of time and lack of knowledge of the pollock industry and western Alaska shows. Many of the conclusions they reach are simply inaccurate, while others do not reflect what the majority of respondents said, are biased, and are insensitive to the realities of economic development in western Alaska. The Council should disregard many of their conclusions, as we will detail later.

We believe that the impact to BBEDC of a significant reallocation from offshore to onshore could be severe, given the state of the surimi market. This would have

major impacts on our investments, royalties, resident employee earnings and training opportunities. We believe that other groups with pollock investments or major involvement in pollock related employment would be similarly impacted. This includes at least four groups representing 80% of the CDQ pollock allocation, and about 90% of the communities and population. Five of the groups support status quo or an increased offshore or mothership partner allocation, and one takes no position.

We look forward to working with the Council to improve this analysis, and present the attached critique and summary of our response on essential points to help set the record straight.

Sincerely,


Judith Nelson 
Executive Director

Attachments

**BBEDC Comments on McDowell Report
AP minutes**

BBEDC Comments on the McDowell Report

Analysis of Inshore / Offshore Impacts on the CDQ Pollock Program

General

The Council delegated analysis of the impacts of the Inshore / Offshore 3 alternatives on CDQ groups and the CDQ program to the State of Alaska in September 1997. Sometime after the first of the year, the State decided to contract out a survey of CDQ group opinion on these issues an outside party.

The State chose the McDowell Group, a Juneau firm with no experience in the NPFMC process, the Bering Sea fisheries generally, or the pollock fishery. Surveys went out in February and were due in late March. Given the amount of information the State requested, the five weeks the McDowell Group had to conduct the survey and analyze the results, and their lack of experience, it is not surprising that they were frequently unable to sort out the facts and come to meaningful conclusions

The analysis is primarily based on survey questions that ask the CDQ groups and their partners to describe the impacts of the alternatives. The groups vary in their operations, their analytical resources and their degree of involvement in the pollock industry and pollock related employment. The responses thus vary in their specificity and the degree of impact described. There are fatal weaknesses in the reports' discussions of employment and partner profitability / royalty impacts, due in large part to the authors' inability to weed out outlying answers appropriately.

BBEDC put together a very detailed response to the survey, and spent a great deal of time trying to bring the authors up to speed. The authors were very pleasant to work with and willing to listen, but they applied a very high standard of proof to anything that the CDQ groups said. In our opinion, this varies from the standard Council process for conducting surveys, and appears to make it difficult for the authors to come to accurate conclusions given their inexperience.

The study authors are frequently unable to get past the differences to find the common thread. They repeatedly write that no conclusion can be reached because they don't have enough information. We are confident that given the opportunity to respond to another round of questions, most ambiguities between responses could be removed, more of the authors' questions could have been answered, and more insightful conclusions drawn. Unfortunately, there wasn't enough time to do this.

Often, if one response varies from the majority opinion, the authors choose that as their benchmark and assert a conclusion contrary to what BBEDC and (we believe) a majority of the other CDQ groups probably said. The document then reads like a debate between CDQ groups such as BBEDC and the authors, not a summary and analysis of a survey. Given the authors' nearly complete lack of experience, BBEDC testified before the Council in April that the draft report should be stripped of the authors' conjecture and instead more accurately portray the groups responses. The Advisory Panel recommendation was quite specific on this point and passed by a large margin. A copy of the minutes is attached.

The Council chose to emphasize the SSC's recommendation that group responses be clearly stated and that the authors substantiate their assertions. While the final report makes significant improvements, there is still a lot of unsubstantiated speculation present. In our opinion, the report continues to be inadequate.

CDQ Group Profiles

BBEDC has 14 villages and 5,383 residents, as of 1997. The 1990 census showed 5,013 residents. The report incorrectly states 13 villages and 3,900 residents.

Financial/ Royalty Impacts

Critique of Analysis

Nearly all groups stated the alternatives moving allocations away from the offshore sector are likely to make offshore operations marginal to unprofitable. This did not make it into the major findings. Instead, the authors chose to believe the one group that said things were pretty good now, and to discount all statements based on current operations being close to breakeven in open access. As a great deal of our concern stems from our knowledge of where the breakeven point is, this causes BBEDC great concern. Given their complete lack of experience in this fishery, it is puzzling that the authors chose an outlying answer as their reference point.

At page 36, the authors speculate about all CDQ pollock being processed by one company outside the open access fishery. The authors seem to miss an essential point about CDQs – their value to the partners and the royalties currently being generated are based on the value of marginal production in addition to the open access fishery. So long as open access covers fixed costs, the entire margin above variable costs is available to split. If the partner is driven below breakeven, or the groups try to cover all costs of production from CDQ fish alone, the value of the quota will necessarily decrease.

The authors conclude that the value of CDQs will remain high no matter what, despite what many CDQ groups and their partners said (pg. 11). The change is

unlikely to be zero if there is a reallocation away from the offshore sector. No CDQ group said the values of their royalties would go up if the offshore allocation decreased, or down if the offshore allocation increased. Most said the opposite was true: if the offshore allocation goes down, royalties will go down. If the offshore allocation goes up, royalties will go up. The estimate of magnitude and precise point at which different contracts change the value of the royalty may vary between groups, but with the exception of one outlying answer, the direction is not in doubt. That group said royalties wouldn't be affected under any allocation. While others said there would be bidders, we doubt they said the bids would stay equally high under any scenario. Again, the authors chose the outlying opinion as the basis for their conclusion.

BBEDC stated that there would be interest in our quotas, but that they wouldn't be worth as much under Alternatives C and D and would be worth more under A. The authors state inaccurately that the largest reduction in royalties was projected at 14% under Alternative D (pg. 12). BBEDC gave a range of 14-35%, with the upper end being very optimistic about conditions, and the lower end being pessimistic, reflecting a glut of fish onshore and a very weak offshore sector undergoing multiple bankruptcies and consolidation.

A significant point was brought out in public testimony and agreed to by the authors under questioning, but left out of the reports' findings. The authors' conclusion that there would be minimal impact on royalties under any alternative (pg. 11) assumes that groups would change partners if those partners were unable to make competitive bids or went bankrupt. There is a very high opportunity cost associated with changing partners, assuming another good one can be found. As the authors note, CDQ groups were unanimous in wanting to stay with their existing partner barring their being forced out of business. None stated they would switch partners to chase higher royalties. This is in addition to potential employment impacts. The authors acknowledge the importance of good partnerships to achieving CDQ program goals, the extreme reluctance of groups to change partners (pg. 13), and the advantage small to medium size offshore companies have in meeting employment and training goals. The authors did not acknowledge or analyze the costs of changing partners.

BBEDC effectively lost two years' momentum changing partners, and only did so once it became evident that their previous partner would be far from competitive on royalties and was probably headed for bankruptcy. Those vessels are now being operated by another company. The costs of changing partners and doing a comprehensive RFP are significant in terms of top management time, Board time and travel, and lack of partner commitment, especially to employment. We find the lack of attention to this point disturbing.

We take strong exception to the authors argumentative conclusion that BBEDC and other groups' ability-to-pay arguments for offshore companies' under Alternative D are speculative (pg. 11). The authors conclude that a statement 'that there would be little interest in CDQ volume (under D) due to offshore

companies being weak and onshore glutted' is extreme. They contrast this with one CDQ group statement that "there would be little effect on (its?) operations under any scenario" in supporting their conclusion. We feel that the latter outlying answer is the "extreme position" within the CDQ community and is unduly optimistic. The authors' conclusion is unfounded and biased based on one group's opinion.

While we didn't make the first statement, we did specifically recognize it as the more pessimistic possibility in our response. Our assertion is based on detailed knowledge of a major operating company and general knowledge of many more through our RFPs. Anyone who says that an offshore company can take a 27% decrease in quota under Alternative D without driving the company below breakeven is simply blustering at worst or at best making uninformed speculations. Companies below breakeven are headed for bankruptcy, barring a timely and major positive shift in other business factors, and aren't desirable business partners.

Companies with deep pockets and a lot of income from other sources might be able to survive, but it won't be from making pollock into surimi and fillets. Most companies primarily dependent on pollock will go into bankruptcy, the assets will be bought by whoever has the bank backing, and the industry will settle out with nearly all equity squeezed out, and production costs cut to the bone. Major crew wage cuts and deferred maintenance are likely to make working conditions on the survivors far less appealing.

In our opinion, trying to extract a higher royalty by doing business with a desperate company approaching bankruptcy or a large consolidator squeezing assets bought out of bankruptcy would be folly. We have always sought long term partnerships with strong, responsive and committed companies. As the authors note, the quality of partnerships is critical to success of CDQ employment and training programs. Smaller, more responsive offshore and mothership companies have been doing this better, as the CDQ groups stated. Few of them are apt to be left standing under D.

Synopsis of BBEDC Survey Response

For BBEDC, the effect of a 9% offshore quota reduction (Alternative C) is expected to be severe. We have a substantial investment in a surimi trawler. Based on audited financial data for ASI's two vessels for 1996 and 1997, the *Fjord* will be put below breakeven. If the owners, including BBEDC, conclude that there is some reason for optimism that conditions will improve, due to a reduction in offshore capacity, significantly improved prices, or a substantially increased TAC, they will be faced with a decision whether to put substantial new capital into the business to maintain liquidity. BBEDC's share could easily be \$1 million in addition to the \$2 million already invested. The company would be spending capital to stay in business, and our partners with far higher capital infusion, can be expected to insist on lower royalties given their risk. BBEDC

would be placed in the position of sacrificing royalties to maintain employment and protect its investment.

If no cause for optimism is evident or Alternative D is implemented, the company would simply be put out of business. BBEDC would lose its \$2 million investment and its residents would lose their jobs. This is the best partner we could find through an extensive RFP process, and it is unlikely that any other company can provide an equivalent or better package.

In our opinion, if Alternative D is implemented, the only viable partner candidates will be onshore and mothership companies. BBEDC expects it would have to make the best of deal it could with a much-reduced field of players. BBEDC would suffer major losses in equity investments, employment numbers and earnings, and momentum. The opportunity costs of changing partners would also be substantial. At a minimum, in the short to mid term, the costs would be major, and in the long term, royalties could be severely depressed if competition for the quota is significantly decreased.

Royalty amounts are open to conjecture. Nearly all companies in these sectors have offered significantly lower royalties in past RFP rounds. Under Scenario D, the roe royalty they could pay is assumed low due to season timing and a surplus of fish. BBEDC projected a 14-35% decrease under D. The most optimistic long-term projection assumes that variable costs of surimi production are covered, but that nearly the entire margin for CDQ surimi goes to BBEDC, that surimi prices stay up, and that competition for CDQ is fierce. Diminished competition and a glut of fish inshore, especially during A season, could diminish royalties, reflected at the lower end projection.

BBEDC required extensive disclosure of costs during the RFP process to ensure that proposed royalties were realistic. While we returned the confidential financial information, the conclusions remain. There was very little contribution to fixed costs included in the finalists distribution of benefits from the CDQ pollock. Both were recovering only variable costs and distributing the net. Factory trawlers capture a much higher portion of the roe value, and due to season timing, the shoreplants could not make any of this up – those revenues would simply be lost. Shoreplants generate better recovery, but produce a lower grade mix overall in the process.

We cannot predict how much the shoreplants and mothership operations surimi profitability would be enhanced by taking fish away from F/Ts. Presumably, if the reallocation was severe enough to cause termination of the relationship, the other sectors would be enjoying some increases in profitability. Shoreplants have recently bid up their royalty offers despite a severely depressed surimi market, but given the intensely charged political climate, the long-term viability of such offers is suspect, especially if there is substantially more pollock available inshore.

Whatever the royalty effects, any alternative relationship would come at a substantial cost in employment numbers and earnings, a substantial loss of equity, and major opportunity costs to change partners.

Employment Issues

Critique of Analysis

A key point made in public comment but left out by the authors is that the opportunities for employment vary considerably between the ice-bound coast from Bristol Bay north and the Aleutian and Pribilof areas. There is a much better chance of finding work that pays adequately in the resident's home community or nearby in deepwater, ice free ports such as Dutch Harbor in the Aleutian/Pribilof regions. Those regions also have far fewer residents, and they have shown almost no interest in pollock employment. The other four CDQ groups have far more residents looking for work and far fewer job opportunities, especially in winter. It might have been easier to group the regions along those lines to determine the likely impacts, rather than trying to make a generic estimate of the impact.

We are particularly disturbed by the complete inability of the authors to come to any meaningful conclusions or projections about the potential employment impacts of a reallocation. After describing the overwhelming preference of western Alaskans working in the pollock industry for offshore employment, the authors make only one conclusion, and it is completely misleading and insensitive to what that they have heard from the CDQ groups. On pg. 16, the authors conclude:

"Overall, since the number of jobs in each sector – inshore and offshore – is in the thousands and the number of villagers seeking pollock employment of any kind is in the hundreds, the study team would not expect a significant drop in employment opportunities under any of the scenarios, provided the CDQ program continues to exert the economic and political leverage needed to obtain employment commitments from partner and non-partner companies."

The issue is not whether there is "employment" available, but whether there is desirable employment available. Whether or not they are offered onshore pollock processing jobs, most western Alaskans have demonstrated they are not interested in processing pollock far from home for minimum wage. Residents of the ice-bound coast have shown a great deal of interest in offshore jobs with the right companies and with good pay. Further, some offshore jobs are not as desirable due to corporate attitudes, lower pay, lower safety and maintenance standards, etc. All of these undesirable conditions will be exacerbated by a decreased offshore allocation. Under Alternative D, many companies would be bankrupt or close to it. How can the desirable operators offer any jobs? Who is going to be left in that sector to offer jobs? Would CDQ groups even want them as partners? The authors conclusion is insensitive to the realities of life in western

Alaska and should be disregarded. It may be based on the opinion of a group with few pollock workers, or the authors' own apparent bias (see below).

In several places (pg. 14) the authors question "the extent to which (offshore) pollock processing jobs are a long-term solution to many CDQ village employment needs," as if alternatives were readily available. There are very few realistic alternatives for remote ice-bound villages, none of which are ever likely to pay as well as processing pollock offshore at current allocation levels. While we agree that alternatives are desirable, BBEDC expects offshore pollock processing to remain an integral part of the regional economy for the foreseeable future, barring major disruption in that sector. There are virtually no alternatives for decent paying winter employment. If the authors have suggestions for creating jobs that pay \$8-10,000 per month in the winter that would allow our residents to stay home, why didn't they share them with us?

Status quo certainly won't remove peoples' option to work onshore or anywhere else that suitable employment can be found. The authors editorial comment is unwarranted and insensitive to the realities of providing employment in bush Alaska and should be disregarded.

No mention is made of the assertion by offshore partners that a decrease in offshore allocation that puts a company below breakeven would necessarily result in cost cutting. Both Alternatives C and D are likely to put offshore pollock operations at or below breakeven. One of the few costs that can be cut is workers' wages. If the quota is reduced enough, there could also be a reduction in the number of crew rotations. Fewer offshore job opportunities and lower earnings per job result. It is highly unlikely that onshore employment could provide an alternative due to far lower wage rates.

The only reasonable conclusion BBEDC could reach is that CDQ pollock employment is directly and overwhelmingly tied to the offshore sector, that offshore fishing time and crew income is directly correlated to allocation, and that reductions in offshore allocation will have a direct and negative impact on CDQ resident earnings. This could mean wage losses of at least 9-26% for Alternatives C and D. Reduced wages and rotations could significantly increase the magnitude of the cuts. On the other hand, if offshore allocations are increased, fishing time and crew income will be directly and positively impacted by similar amounts.

The authors dance around this because they can't absolutely prove how earnings will be impacted on an individual basis under a given alternative. We contend they can conclude the above for groups on the ice-bound coast, and should have done so, with the usual caveats that this is a linear estimation of the gross impacts. Such a conclusion would be entirely consistent with the overall level of analysis contained elsewhere in the Inshore/Offshore 3 analysis.

Synopsis of BBEDC Survey Response

Employment in the pollock fisheries is critical to the Bristol Bay region and has long been a cornerstone of BBEDC's program. The barriers to entry to fishing salmon are extreme in Bristol Bay, and out-migration of roughly 25% of resident permits since the inception of limited entry has seriously eroded the region's economic base. Added to this is the continuing erosion of salmon prices. Economic opportunities for young people in the region are extremely limited. Salmon fishing all over western Alaska is getting increasingly marginal with the flood of farmed salmon on world markets.

Then the Bay suffered a disastrous salmon run failure last year, and herring looks like it will be another bust. Last fall we called on all parties hiring for Bering Sea fisheries to help put more of our people to work. Many inshore and offshore pollock companies responded. We are very grateful for their efforts. A total of 66 jobs not related to our CDQ pollock operation went to local residents because of those efforts, mostly offshore.

Even if only CDQ partner hires are counted, BBEDC had more people working in the pollock industry than any other CDQ group in 1997, had the highest earnings, and above average income per individual. Our pollock partner employed 94 residents, an estimated 29% of CDQ pollock employment for 1997 and the \$800,000 brought back to the local economy represents 31% of pollock earnings as reported in the quarterly CDQ reports. For BBEDC residents, 1997 average individual earnings increased 15% compared to 1996, while individuals employed increased 42%, with total pollock earnings increasing 64%.

We predict lower individual worker income due to shorter seasons under a reduced offshore allocation, and increased income under an increased offshore allocation. For BBEDC, the most relevant year is 1997, as our employment numbers and average earnings have increased substantially with Arctic Storm and show no sign of declining under status quo. Coincidentally, BBEDC resident earnings at \$6,260 for 1997 equal the "average" of CDQ earnings per individual 1992-1997 for all CDQ groups.

We believe that lost wages can be compared to lost fishing time, which is proportional to lost quota. Alternative C's 9.2% reduction in offshore quota applied to \$6,260 earnings results in a \$563 loss per individual. Alternative D would result in a 27% loss in offshore quota or \$1,690 loss to each individual. BBEDC pollock workers could lose \$74,000 and \$216,000 annually under Alternatives C and D. Their wages could go up equivalent amounts under Alternatives B and A.

Using average earnings for the pollock workers and about 325 individuals currently employed from CDQ regions, western Alaska could suffer losses on the order to \$255,000 and \$744,000 annually under Alternatives C and D, assuming wage scales in the offshore sector remained the same. Actual losses would almost

certainly be much greater under Alternative D, as both absolute number of positions available and average pay are likely to drop. Increases in earnings of similar magnitude could be expected under Alternatives B and A.

Current capital investment in Alaskan fishing and processing: F/T Arctic Fjord

Critique of Analysis

The authors recognize that groups with equity investments in pollock operations are likely to be more strongly affected by a change in allocation (pg. 11). They acknowledge that investments can increase the leverage to obtain community benefits such as employment, but completely miss the program mandate that CDQ groups invest in the industry. The overwhelming majority of CDQ dollars invested in pollock are invested offshore.

BBEDC made a rational business decision based on the "industry stability" political environment prevalent at the time. Given that pollock is our core business and our need to employ many residents in good paying jobs, this investment makes good sense. Fish politics being what it is, however, the possibility always exists that a reallocation will undermine a business investment. BBEDC has since made several other major investments in other seafood sectors, but would like to continue investing in pollock, as it is the single biggest fishery by far. Stability would make that much more practical.

BBEDC's response was based on our partner's breakeven analysis based on audited financials for 1996 and 1997. Our experience as owners corroborates that analysis. The authors argue that since they didn't see the audited financials, the numbers are suspect, and throughout the report completely discount the possibility of large-scale economic stress and bankruptcies in the sector. However, they never asked for audited financials, there wasn't time for a follow-up round to go over the financials, and the authors' conclusions calling BBEDC's assessment of the impacts of Alternatives C and D into doubt are unwarranted.

Synopsis of BBEDC Survey Response

The potential impact of Inshore/Offshore 3 on the performance of this vessel ranges from extremely favorable to extremely adverse with the range of +27% to -27% from the status quo. BBEDC would be happy to see Scenario A implemented based on the improved performance of the *Fjord* and dramatically improved crew earnings, though we support continuation of the status quo. Scenario D would probably put the *Fjord* out of business, with major losses to all shareholders, including BBEDC and termination for all employees. We expect this would be the case for most F/Ts.

The only reprieve under D would be if about 1/3 of the capacity from the offshore pollock fleet were removed to offset the loss in quota or there was a similar increase in the quota or prices. The standard outcome of bankruptcies, however, is discounted vessels sold at marshal's sales and a new equilibrium with fewer players (through consolidation) at lower level of revenues and lower costs. This does not decrease capacity.

Bankruptcy and consolidation have already occurred extensively in the F/T fleet, with most of the boats acquired by American Seafoods. One of the exceptions is the *Arctic Fjord*, which AFI acquired through bank repossession.

Scenarios B and C also have major impacts. Getting 9% more or less fishing time and production is significant. In any open access fishing operation, the rule of thumb is that the last 10% of the production contains the profit one can expect over the long term. If there is more money in the fishery than that, participants tend to increase their capacity through "capital stuffing" until the "surplus" margin disappears. This is true in salmon, crab, longlining, or pollock trawling.

Again, BBEDC would be very happy to see Scenario B implemented, and very unhappy to see Scenario C implemented, though we support continuation of the status quo. Under C, the vessel could be expected to lose money fishing open access pollock most years, as this is below the breakeven point.

Despite the rhetoric about F/Ts being able to go anywhere, there are very few alternative fisheries anywhere else. It is extremely unlikely that the *Fjord* could replace lost revenues from open access pollock with revenues from any other fishery.

The *Fjord* currently participates as a mothership in the whiting fishery off Oregon, and has participated in yellowfin sole when there is sufficient margin. Neither of these fisheries has the margin possible in pollock. The only fishery with any expansion potential is yellowfin sole, which has the poorest return and significant bycatch limitations. Other displaced F/Ts can be expected to compete for alternative resources when their markets are good. These fisheries do not constitute a viable alternative to open access pollock.

Conclusion

The authors need more experience to treat outlying responses correctly. Despite the much greater specificity and detail contained in BBEDC's and some other responses, the authors chose to give greater weight to responses that predicted lesser impacts from reallocations. If the Council relies on this document, they will underestimate the possibility for damage to some of the CDQ groups with major investments in the offshore sector and dependence on that sector for desirable employment.

Frank V Kelty
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Unalaska Alaska 99685
Phone 907-581-1211
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Home Phone 907-581-1424
Email FVKelty@ansi.net

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June 02, 1998

Mr. Rick Lauber, Chairmen
North Pacific Fishery Management Council
605 West 4th, Suite 306
Anchorage, Alaska 99501

Subject: C-I Inshore/ Offshore III

Dear Mr. Chairmen and members of the Council,

I'm writing to you today as a long time resident of Unalaska, in support of an increased allocation of pollock in BSAI area for the onshore sector of the industry. I've been a resident of Unalaska for twenty-seven years, raised a family here, and have worked in the shoreside sector of seafood industry in Unalaska since 1972. I've served this community for almost twenty-years as councilman and Mayor and have served on many boards and commissions also during that time. As a long term resident and someone who has been involved in this community both in City government and in the seafood industry I feel well qualified to discuss the importance of this allocation issue to my community.

I've seen many changes in this community through the years, the boom and bust of the Red King Crab Fishery in 1981 and how devastating that was to this community, layoffs, plant closures, families leaving the community, the City was almost broke and had to cut back on all services they supplied. In 1986, when the first pollock plants opened, it lead to tremendous period of growth for this community. The local plants processed almost all year long, revenues from those plants and the vessels that fished for them generated the funds from fish tax, property and sale tax to address the many needs this community had. But a good thing can't last, with the overcapitalization of the fishery came shorter and shorter seasons, less fish processed in Unalaska full time employees became seasonal it has affected all sectors of are community.

Page Two
Letter to NPFMC

During Inshore/Offshore I in 1991, the NPFMC supported a phased-in 45% allocation for the shoreside sector in BSAI area. I believe the document you are working from during Inshore/Offshore III supports an allocation in that range. You should also consider the changes in the Magnuson - Stevens Act, and the provisions that provide for the sustained participation of fishing communities and to minimize adverse economic impacts on such communities. The shorebased plants and the catcher vessel that deliver to these plants are totally dependent on the fishery resources of the Bering Sea. They don't have any other options to catch or process fish. The analysis you are working with on this allocation decision shows that the shoreside sector of the industry are better stewards of the resource. Onshore has a much higher utilization rates than the offshore sector. Inshore sector has 6% higher value from each pound of the resource and there is less waste when the fish is processed onshore. The analysis goes on to show that inshore sector hires more Alaskans and that these Alaskans hold higher paying jobs. More revenue is generated by the onshore sector through taxes and fees to local and state governments.

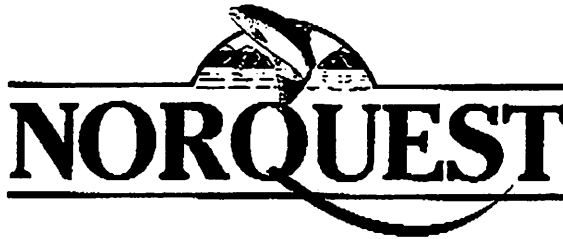
The above mention information, as well the provisions in the Magnuson- Stevens Act, justify an increased allocation to the shoreside sector.

To me this issue is not about Japan Inc. vs Norway Inc, it is what is best for the continued economic well being of this community, other coastal communities and the State of Alaska. The processing plants in Unalaska and the fishing fleets that deliver to these operations are the economic engine of our local economy. Their investment, commitment and the revenue they generate have made Unalaska, not only the Number One Commercial Fishing Port in the nation, but a community who has achieved a much higher quality of life since the first plants started operating onshore in 1986. An increase in the pollock allocation to the onshore sector will help ensure the continued economic health of this community and other coastal communities in Alaska. Thank you for your full consideration of this issue.

Sincerely



Frank V Kelty



June 1, 1998

Mr. Richard Lauber
Chairman
North Pacific Fisheries Management Council
605 West 4th Avenue, Suite 306
Anchorage, Alaska 99501-2252

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JUN - 2 1998
N.P.F.M.C

Sent via facsimile to 907-271-2817

Dear Mr. Lauber,

NorQuest Seafoods is involved in the Alaska seafood processing industry with shore plants in Southeast, Cordova and Chignik, and floating processors throughout the state processing salmon, roe herring and opilio crab. NorQuest is not involved in any manner in the Gulf of Alaska or Bering Sea pollock fisheries.

Our company does however operate in fisheries in which both inshore and offshore bottom fish companies also operate. They are our competitors.

Changes in the allocation of Bering Sea pollock will benefit some processors at the expense of others. The council and staff have put considerable effort into analyzing the impacts of reallocation on all segments of the pollock industry. They have not, however, attempted to understand the potential impacts on participants in other parts of the Alaska seafood industry.

Our company does not pretend to know all the factors that the Council must weigh in making its allocative decisions. We know they are not easy decisions to make, they are contentious, and there is likely no perfect answer. Nor do we understand why the Council is compelled to make a decision at this time. These are all matters that you have spent considerable effort analyzing, and we have not. Having said that, we would urge you to move cautiously, delaying your decision if need be, to ensure that you take into consideration the impact of what you do will have on other significant sectors of the Alaska seafood industry.

We do not know what impacts if any will occur to us if you decide to change the current allocation system in the Bering Sea. But we are nervous that any significant change in the current system will have effects in the salmon, herring and crab industries.

Your decision regarding the allocation of Bering Sea pollock needs to be considered in the context of other decisions that may occur in the future, including the so-called Stevens Bill (SB 1221), an IFQ system and other measures. Each measure, on its own, may have a modest impact on the overall competitiveness of Alaska fisheries, but

NorQuest Seafoods, Inc.

4225-23rd Avenue West • Seattle, Washington 98199
Telephone: (206) 281-7022 • Fax: (206) 285-8159

Crusader Fisheries • Lafayette Fisheries • Silver Lining Seafoods

collectively they may result in a substantial impact. The Council should therefore take into consideration not only its decision on allocation, but other factors which may change in the future.

It seems to us that it is critical that the Council address some very fundamental issues to be able to properly answer the question "What is the right allocation of the Bering Sea pollock resource" as mandated by the Magnuson Act. Those issues include a clear vision of the long term goals for managing the resources of the Bering Sea. They include what economic structure is the Council trying to promote - vertical integration, for example, or a few number of large processors or an environment where more competition is encouraged. Does the Council see the groundfish resource management as integrating in a meaningful way with other resources, whether managed by the Council or not.

We therefore urge you to either leave the current system of allocation in place, or, delay your decision until such time as you have expanded your inquiry sufficiently to understand the impacts you will create for others in the seafood business. We would request that you put in place a specific process to measure the cumulative impacts of the various measures that might change the balance among fishermen and processors in the harvest of the Bering Sea pollock, including an inquiry into the impact on the overall competitiveness of the Alaska seafood industry, and the impact these decisions will have on the ability of new entrants to compete in various segments of the seafood industry.

Respectfully



Terry Gardiner
President



CROWLEY MARINE SERVICES, INC.

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 N.P.F.M.C

JUNE 2, 1988

**NORTH PACIFIC FISHERY MANAGEMENT COUNCIL
 605 WEST 4TH AVENUE
 ANCHORAGE, ALASKA 99501-2252
 CHAIRMAN RICK LAUBER**

DEAR MR. LAUBER:

CROWLEY MARINE SERVICES PROVIDES SUPPORT SERVICES, BY WAY OF FUEL, LUBE OILS, WAREHOUSING, YARD STORAGE, EQUIPMENT RENTAL, LABOR AND DOCKAGE, TO THE AT-SEA PROCESSING FLEET.

THE AT-SEA PROCESSORS ARE THE CORE SOURCE OF OUR BUSINESS AND REVENUE.

DURING THE PAST SEVERAL YEARS THE AT-SEA FLEET'S ANNUAL POLLOCK FISHING SEASON HAS BEEN REDUCED FROM APPROXIMATELY TEN (10) MONTHS, TO TWO (2) EACH, FIVE WEEK SEASONS PER YEAR.

A FURTHER REDUCTION IN THEIR ANNUAL QUOTA WOULD BASICALLY PUT THE FLEET AND CROWLEY'S SUPPORT OPERATION OUT OF BUSINESS.

A DECISION TO FURTHER REDUCE THE POLLOCK QUOTA, FOR THE AT-SEA PROCESSORS, WOULD FORCE A LARGE REDUCTION IN PERSONNEL OR EVEN THE POSSIBILITY OF OUR'S AND OTHER BUSINESS CLOSINGS.

A QUOTA REDUCTION WOULD CREATE A VERY LARGE NUMBER OF JOB LOSSES AND FAMILY HARDSHIPS.

I STRONGLY SUPPORT THE CURRENT QUOTA DIVISION IN THE POLLOCK ALLOCATION BETWEEN THE SHORE BASED PLANTS AND THE AT-SEA PROCESSORS.

SINCERELY,

Robert E. Reeves
**ROBERT E. REEVES
 TERMINAL MANAGER**

Post Office Box 2287
 Seattle, Washington 98111
 (206) 443-8100
 Fax (206) 443-8072

Post Office Box 261
 Kotzebue, Alaska 99752
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 (907) 583-1114
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 Nome, Alaska 99672
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 Fax (907) 443-2012

Post Office Box 92
 Unalakleet, Alaska 99686
 (907) 581-1285
 Fax (907) 581-1689

ALASKA SEAFOOD HARVESTERS

June 2, 1998

Mr. Rick Lauber, Chairman
North Pacific Fishery Management Council
P. O. Box 103136
Anchorage, Alaska 99510

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JUN - 2 1998
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RE: Inshore/Offshore

Chairman Lauber:

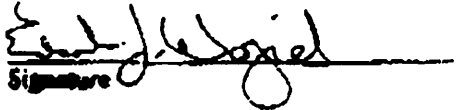
In the past year as the Inshore/Offshore debate has taken place, we have watched with great interest. While this issue clearly affects those companies who harvest and process pollock in the Bering Sea, we believe it impacts us as well.

The groups and individuals who have signed below are involved in harvesting Alaska's salmon, herring, sablefish, halibut, crab, and groundfish fisheries. We believe that any decision relating to the Inshore/Offshore allocation of pollock will have an impact on our sector of the industry. In dealing with an international market, we recognize that issues such as vertical integration, market control and competition are all inter-twined and affect fisheries other than pollock.

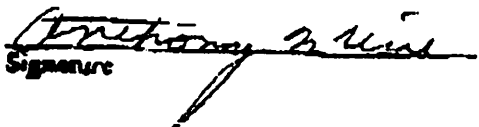
While we are convinced that any change in allocation will impact our fisheries in some way, we realize it is difficult to quantify what those ramifications may be. We are concerned that increasing the shoreside pollock allocation may increase the overall market control that large, vertically integrated companies such as Nippon Suisan, Maruha and Nichiro already exercise in connection with other Alaska seafood products. Therefore, we ask that the members of the North Pacific Council to take these issues under consideration during the discussion and debate on this controversial allocation decision.

Sincerely,

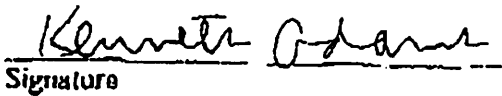
ALASKA SEAFOOD HARVESTERS


Signature

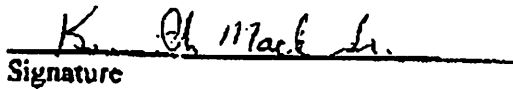
Edward Wojeck, fisherman


Signature

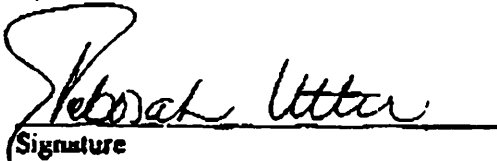
Anthony A. Urie, fisherman


Signature

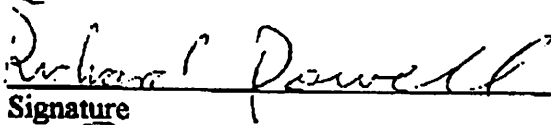
Kenneth Adams, fisherman


Signature

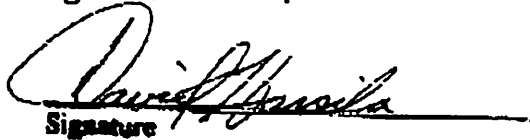
Kenneth Mack, fisherman


Signature

Deborah Utter, vessel owner


Signature

Richard Powell, vessel owner


Signature

David Harsila, President
Alaska Independent
Fisherman's Marketing Assn.


Signature

Frank Davi, fisherman


Signature

Kenny Wilson, fisherman

Alaska Groundfish Data Bank

P.O. Box 2298 • Kodiak, Alaska 99615

TO: RICK LAUBER, CHAIRMAN
NORTH PACIFIC FISHERY MANAGEMENT

RE: COMMENTS ON INSHORE/OFFSHORE
AGENDA ITEM C-1

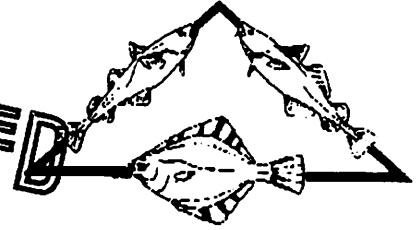
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COMMENTS ON INSHORE/OFFSHORE (AGENDA ITEM C-1)

SUBMITTED BY ALASKA GROUND FISH DATA BANK

CENTRAL/WESTERN GULF OF ALASKA

For the Central/Western Gulf of Alaska the members of Alaska Groundfish Data support Alternative 2: roll over the current Inshore/Offshore allocations of 100% of the pollock quota and 90% of the Pacific cod to Inshore operations. The EA/RIR for the Central/Western Gulf of Alaska states that rolling over the current Central/Western Gulf of Alaska Inshore/Offshore allocations will maintain the current balance in social and economic opportunities now available, provide stability, and assure pollock and Pacific cod benefit community the local communities. We also note that the analysts believe a roll over of the Gulf Inshore/Offshore pollock and Pacific cod inshore allocations may be a net benefit to the nation.

There are now more communities depending on Central/Western Gulf pollock -- Cordova, Seward, Valdez -- than there were when Inshore/Offshore2 rolled over the Central/Western Gulf pollock and Pacific cod Inshore/Offshore provisions, which means any change would be even more unstablizing than the problem the original problem which Inshore/Offshore largely mitigated.

Further, the continued decline of sea lions in the Central/Western Gulf and the concern over the potential for localized completion due to the pollock fishery appear to make any measures which increase the effort on pollock in the Central/Western Gulf detrimental to the sea lion recovery measures.

BERING SEA AND ALEUTIANS

AGDB also represents vessels and shorebased processing plants in the Bering Sea as well as smaller trawl vessels which fish both the Gulf of Alaska and Bering Sea pollock and Pacific cod seasons.

Many of these smaller trawl vessels began as joint venture vessels and since full Americanization have seen dramatic drops in their incomes and share of the pollock quota. Also, shorebased processing in the Bering Sea was in its infancy when Inshore/Offshore was first implemented and the ultimate apportionment of 35% of the pollock quota for onshore processing operations did not take into account the State of Alaska's interest in increasing onshore processing, nor the loss of markets suffered by smaller trawlers when full Americanization took place.

Part of the delay in the full development of Inshore processing was considered to be lack of access to capital to build shorebased plants due to uncertainty in the market, uncertainty about the ability of shorebased operations to produce quality surimi and difficulties in with export quotas. Time has proven that shorebased operations can be as effective as offshore operations.

Chris Blackburn • Director • (907) 486-3033 • FAX (907) 486-3461 • e-mail 7353974@mcimail.com

AGDB INSHORE/OFFSHORE COMMENTS -- JUNE 2, 1998 -- PAGE 2 OF 2

The CDQ program was developed in recognition of the difference between Bering Sea communities' ability to attract capital compared to Gulf of Alaska communities. A moderate increase in the onshore pollock quota in the Bering Sea will recognize that shorebased processing development was more disadvantaged in its ability to attract capital than was that of the at sea processors when the original Inshore/Offshore apportionment was implemented.

VESSEL SET ASIDE

AGDB members support Midwater Trawlers proposal for 5% of the Bering Sea quota to be allocated to catcher vessels less than 125 feet LOA. There was not consensus on whether the 5% small trawler set aside should be delivered only to shorebased operations or should be or delivered to the proportionally to modes from which it was taken.

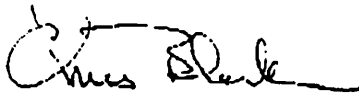
MOTHERSHIPS

There was support for a separate true mothership allocation under Inshore/Offshore based on the concern that the smaller catcher vessels delivering to motherships were pushing the safety limits during storms in order to maintain share.

SUNSET

AGDB believes Inshore/Offshore 3 should be in place for at least three years to allow time for attention to other pressing issues such as the Magnuson Act mandates.

Thank you for the opportunity to comment on this issue.



Chris Blackburn, Director
Alaska Groundfish Data Bank

**KODIAK
VESSEL
OWNERS'
ASSOCIATION**



326 Center Avenue, Suite 202
P. O. Box 135
(907) 486-3781
Fax (907) 486-6963

HALIBUT • SABLEFISH • PACIFIC COD • CRAB

June 2, 1998

Rick Lauber, Chairman
North Pacific Fishery Management Council
Anchorage, Alaska

SENT BY FAX: 907-271-2817

RE: Inshore/Offshore

Dear Chairman Lauber:

The members of the Kodiak Vessel Owners' Association are all involved in the harvesting of Alaska's fixed gear fisheries in the Gulf and Bering Sea. While we have not taken part in testifying on the inshore/offshore issue, we do believe this allocation decision is extremely important and feel that we must make our position clear.

At the April meeting, we became aware of the "harvester's choice" proposal supported by the Advisory Panel. We support that proposal and ask the Council to consider adopting it as part of their allocative decision. We believe it should be a goal to allow harvesters the ability to negotiate with available buyers and determine their market based on a variety of factors, including competition. The proposal concept is outlined below:

Allocation Formula

1. Catcher vessels less than 125' would receive an allocation and be allowed to sell their fish to shoreplants, catcher-processors or motherships.
2. Catcher vessels greater than 125' would be required to sell to shoreplants or inshore floating processors.
3. Catcher-processors.

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NPFMC - June 2, 1998
Page Two

Allocation Distribution


1. Keep catcher-processors at their current level of 49%.
2. Divide the remaining 51% between catcher vessels as shown below:
 - a) 30% to catcher vessels less than 125'
 - b) 21% to catcher vessels greater than 125'

Imagine the feeling that salmon fishermen would have in Bristol Bay if they were told that an allocation between floating processors and shore plants would occur and they would no longer be able to choose their market? Imagine if halibut fishermen were required to sell product to a community based on an allocation scheme, rather than try to maximize their return by selling to the highest bidder. The pollock fishery is unique in that harvester's options are limited. Why not allow them the flexibility to choose between shore plants, motherships or at-sea processors?

We believe that the most healthy environment is when competition exists and the market has a chance to fluctuate normally, rather than being driven by a few large players. Without letting the market operate with as few constraints as possible, soon other factors are determining price. Some of those factors may include consideration of other product produced or investment decisions.

As the Council meets to review and vote on this issue, we would ask that you strongly consider the "harvester's choice" as proposed by the Advisory Panel as a viable option. Thank you for reviewing our concerns.

Sincerely,



Robert J. Wurm, president

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120 Lakeside Avenue,
Suite 230
Seattle, Washington, 98122

N.P.F.M.C

American Independent Fishermen

Did You Know...?

HARVESTERS' INDEX

Ratio of pollock delivered by CVs <125' inshore vs. offshore in 1996: 1:1

Percentage of offshore CV deliveries by vessels <125' in 1996: 90%

Ratio of percent of shoreside deliveries by CVs <125' in 1991 to those in 1996: 3:2

Ratio of percent of TAC taken by CVs >125' in 1991 to those in 1996: 1:2

Ratio of foreign ownership of CVs >125' to foreign ownership of CVs <125': 2:1

Ratio of the hold capacity of a typical 170' CV to that of a 100' CV: 4:1

Number of CVs over 125 which were once Factory Trawlers: 5

Price paid to convert FT Titan to CV AK Command: \$14,000,000

Metric tons of pollock AK Command will need to break even at 1998 prices: 98,000MT

Number of years between 1987 and 1991 that CV share of pollock decreased: 3

Number of years between 1985 and 1992 that shoreplant share of pollock increased: 8

Economists' term for a small number of buyers, and restricted choice by sellers: "Market Failure"

Percentage of shoreside BS pollock purchased by 4 largest companies (Maruha, Nissui, Trident, Tyson): 90%

Ratio of ex-vessel shoreside price in 1991, to ex-vessel price in 1996: 1:1

Ratio of 1st wholesale value of products from a ton of pollock delivered shoreside in 1991, to that in 1996: 3:4

Percentage drop in the share of the wholesale product value paid to catchers, from 1991 to 1996: 30%

Lost value of fish to catcher boats in 1998: \$35 million

Value of capitalization by shoreplants since 1990: \$350 million

Annual payment on \$350 million capital cost: \$35 million

Name normally associated with those who pay capital costs: Owner

Trend in status of Catchers in BSA: Cannery Owned

Because all fishers should be free

Public Comments
Inshore-Offshore 3
April 23, 1998

NOTE: To save time and space, the formality of seeking and receiving recognition from the Chair, and addressing the Chair at the beginning of each statement, has not been transcribed.

Tape 17

11:14 am Jim Salsbury, Supreme Alaska Seafoods. We operate the mothership, Excellence. I'd like to make just a few comments. First of all, in the reports that we've received and the characterization of the mothership sector in those documents, I thought, was very well done. I think it described the sector very accurately from our perspective in that sector. I also think it describes very accurately the other sectors as we know them. I think also the report that was provided giving a explanation of the impact of this allocation question on CDQ communities was also well done. I think that it was clear that there may be impacts depending upon the individual nature of each CDQ community relationship with their business partners and so some CDQ operations may be impacted and others may have no impact at all and I think from an overall perspective that's true and we've had CDQ proposals ourselves, the kinds of proposals that we have made could have resulted, in fact had we been chosen as a CDQ partner. On the other hand, other companies have made CDQ proposals and become partners and it would have no impact at all and I think the report clearly reflected that. Mostly I'd like to direct my comments [to an issue] that's arisen lately which is that somehow that this category of motherships and whether or not there would be an allocation or separate category called motherships, would constitute a limited entry class and I think that one suggestion that's been made is that the Council look at this through what I think is called 303(b)(6) in the Magnuson Act, [which] describes how an analysis must be made if you're going to allocate to a limited entry class and that I think that the Council should go through that process, at least do the analysis from the perspective that 303(b)(6) describes, however, I do not believe that what's been suggested constitutes a limited entry class. Basically the Council is allocating to catcher boats; you're not allocating to motherships, you're allocating to catcher boats and you're describing a limitation on the activities of those catcher boats. You're saying, like many other regulations do, that those catcher boats can do certain things, or cannot do certain things, and what they cannot do is if you set the limitation at 10% of the TAC they can't deliver more than 10% of the TAC to motherships. I mean, it's a limitation on an already limited entry class. I think that we've gotten wrapped up in this because we talk in kind of a shorthand and we say it's an allocation to motherships, but it's not an allocation to motherships and under current regulations other vessels could also become motherships. There's no preclusion of somebody going out and building a new mothership and under the definition that was proposed, which is that vessels that have not fished in the U.S. EEZ, under that definition other vessels could become motherships. I don't think it precludes anybody else from becoming a mothership. What it is trying to do is distinguish the difference between a mothership and a factory trawler as a recipient of fish that's being delivered to it and it's trying to describe when that fish is delivered to the mothership what category it's counted under. Right now, what's delivered to a factory trawler and what's delivered to a mothership's very difficult to distinguish. So, I don't believe that this constitutes a creation of a limited entry class. You already have a limited entry class of catcher boats, you're trying to put some limitation on the activities of those catcher boats, how much they can deliver to a mothership. I think that's the way it should be viewed. But I would urge that you do the analysis that might be required if you create a limited entry class so that we don't get down the road and someone says, well you haven't done enough analysis of this issue and therefore we can't do it. If you want to do it, I think you can, if you don't, then there's no point in having an analysis of it in the first place.

Council questions:

O'Leary: Mr. Salsbury, originally when this whole discussion began, motherships came forward and said they wanted to become a part of the inshore sector. I sense from your comments that maybe you now. . .and I don't recall if you testified or made comment at that time. . .I sense from your comments though that maybe you're

thinking about a separate class as opposed to part of the inshore sector. Could you just tell me, is your preference to a distinct class of your own or to be a part of the inshore sector?

Salsbury: Originally we had proposed to . . . and I say 'we', the motherships in general, had proposed to be a subset or a reserve out of the inshore category, be transferred to the inshore category. I think it's evolved into kind of a sense that there should be a separate category but that hasn't been driven by the motherships, that's been driven primarily by the factory trawlers and the shoreplants themselves who see complications of putting the motherships in either one side or the other. So they've kind of pushed us out of each category into a separate category of our own. Personally, I don't think it would make too much difference whether we were in the shorebased category and there was some limitation on the amount of fish that could be delivered to motherships, or kind of a reserve for motherships, I don't think it matters too much but we've been pushed out of the other two categories and that's why there's a proposal for a third.

O'Leary: But what is your preference? If you could tell us what to do, what are you saying to us now? Are you saying make us a separate category or we want to be part of the inshore sector. I'm just trying to get a sense of what your preference is.

Salsbury: I think after having to listen to all the different people advocate for one side or the other I think we have developed a preference for a third category because it makes it simpler, If you have a category that can be described and defined, then the deliveries of catcher boats to that category are very easily distinguished. They're easily analyzed and it's everything simpler, but I guess it's not a strong preference either way.

Austin: Mr. Salsbury, if in fact the Council was to decide to create a separate sector, motherships, how do you now determine what catcher boats deliver to you and how would you expect to make that determination under that separate sector?

Salsbury: The way we determine it now, is it's a simple contract relationship between us and a catcher boat. In our own particular case we've had a very consistent fleet of boats but it has slightly changed over time, but they're all independent boats, they have no relation to our company and we hire them to fish for us. I don't anticipate any change at all in the how you do that. The whole class of all catcher boats are within the potential range of customers that you'd have. By customers, I mean a catcher boat that you could hire.

Kyle: Jim, I think when you began you said you more or less agreed with the analysis and the information we have before us, from a mothership perspective. And what I gleaned from that analysis is that the motherships have done O.K. while part of the offshore sector; your percent has been creeping upwards and it's also in here that you feel that if you're put in the inshore sector that you could compete well there as well. From your opener, you agree with those things that are in the analysis that I just repeated?

Salsbury: Yes, I think the motherships have demonstrated that they hold their own in the offshore sector in terms of the consumption of the quota. It went down sharply at the very beginning but it's been fairly stable and slightly rising towards the end. The problems that we have are not so much in competing, in finally getting the amount of quota, it's the operational problems in between. It's the fact that the smallest of the catcher boat fleet is in fact harvesting in competition with the very largest of the harvesting fleet. We have difficulties, I think there's been a lot of times when the factory trawlers would like to do one thing that might benefit their style of operation but it would inhibit ours and so you have very little ability to operate as a kind of a collective, or in a cooperative way. The main distinction that we have is that we're buying all the fish from the catcher boats and you have a very different set of circumstances. I think some of the things, for example, that come out of the difference, when the cod season was delayed because the factory trawlers basically wanted to match the roe season more effectively. Well, the impact on the catcher boats was severe. It basically cut a great deal out of their cod season and they can't get it back. The impact on a factory trawler, it's doing one or the other, it can't do both. But the catcher

boats could. So I think there are a lot of operational problems that happen because we operate in much more of a style that's similar to a shoreplant where we hire boats, pay for fish, and process it.

Kyle: The other thing that I would just mention that comes through fairly clearly in the analysis that you said you agree with, as you know the offshore sector and the onshore sector had quite an employment campaign, Alaskan employment, and it says in one of the reports, the San Diego report, that mothership employees are reported to come from all other and other than the CDQ participants, no special attempts were reported by any of the operations to recruit Alaskans. And, even the one operation that is aligned with a CDQ group, they have to put those folks on other vessels because there's long-term historic participation by the employees on the motherships. Do you agree with that?

Salsbury: I agree with what they said. I think it bears a little bit of description if that's what you want to focus on. I think first of all there's one of the motherships that has a CDQ operation. What is not apparent in that statement is that employment is limited because of the consistency of the jobs, the low turnover of jobs on that operation. What's happened in fact is that the other two motherships have been the ones that hired people from that same CDQ community to sort of spread it out and make it available to more of them. So, we've all done. . .all of the motherships have tried to participate in the employment of that CDQ community's employees. I think you'll hear testimony on that later today. So, that's where the activity's been directed, but it doesn't show up there, but that's what's happened.

Samuelson: Jim, in the analysis because of the limited number, very little information I feel was provided on ownership of motherships, the amount of employment. How many people do you employ on your vessel?

Salsbury: It varies between 100 and 140 people, depending upon the season.

Samuelson: Can you tell me approximately what percentage of that is Alaskan hire?

Salsbury: We got all that and we provided it, I think there are some documents around. I can go check, but in my, and this is just my memory so it's not accurate to the perfect, but it's about 22% at this time that's Alaskan. That includes. . .that's primarily made up of CDQ community members.

Samuelson: Another big issue of motherships, we've always heard testimony that they don't pay state taxes, deliver their cargo directly overseas; what portion of your product do you pay state taxes, landing taxes in Dutch, on?

Salsbury: Thanks for asking that. That's actually good. The landing tax issue I think has been a big focus of controversy. We made several trips to Japan to deliver product well before the landing tax was instituted. The reason we did it is that's when the fishing season had a dramatic drop; we had our shortest season and we basically had nothing to do, so we did that, and it had no effect on the landing tax because there wasn't one at the time. We pay all the landing tax now and as well we're an Alaska corporation so we pay corporate income tax in Alaska as well.

Samuelson: Do you participate in any other fisheries besides the pollock fishery?

Salsbury: Yes, we participate in the hake fishery off the Washington coast.

Pereyra: Mr. Salsbury, the figure you gave for employment, at 22%, I don't think that is captured in our document so this is all new information and the Council has an auditing procedure already established. Would you be willing to have your employment data audited so that we could have benefit of those audited figures.

Salsbury: Sure, we can provide, I guess audited figures, or we can provide just the raw material and whoever wants to audit them can audit them, but as I said, I'm saying that out of my head but we do have a paper that the motherships put together where we looked at the facts and tried to accumulate them and I think you can see from that the actual number that it is. We've had a very up and down record of employment. At one time we operated out of Alaska and at that time we had as high as 68% employment by Alaskans. Now that we're operating more out of the Seattle area because of the hake fishery that we participate in, that's gone down considerably and I think that's more of a function of the year-round activity that we do down there. What it does mean, however, is that the Alaskan employees we have are not solely employed during the Alaska fishery, they're also employed during the fishery in Washington and Oregon coasts, so it kind of expands their employment opportunity as well.

Pereyra: So, this 22% figure is sort of a soft number that you're maybe not quite totally secure on, or...?

Salsbury: Well, it's soft 'cause I told you it's out of my head which is fairly soft, but...we can give you the exact numbers and every year it's different, it goes up and down and you have to pick which year and which season you want to look at because it's up and down by season, but I think that at the present time it averages around 22%.

Samuelson: Clarification. You refer to your letter, is that the letter from Premier Pacific Seafoods...submitted to the Council?

Salsbury: Yes, I think you already have it.

Samuelson: Yes, I thought maybe there was another letter out there.

Salsbury: That has been accumulated by data both in the Council documents and then what holes we saw there, we provided individually.

End of questions.

11:33 am Donna Parker, Arctic Storm. I'm here to comment on the two community dependence reports done by Impact Assessment and the CDQ report done by the McDowell group. To a lesser extent, I'm also representing Glacier Fish Company in that they have provided us with some numbers that we've blended into our own so that you'd have a better view of the wages in the offshore sector. Glacier Fish Company and Arctic Storm are CDQ partners in Norton Sound and Bristol Bay groups. Both of us are medium-sized companies. We have two boats each, one primarily fillet, the other surimi, both industry pioneers. We harvest approximately 42% of the CDQ quota and about 10% of the TAC. Both CDQ groups have large ownership in our companies and in fact our two companies represent the only Alaska-owned processors in the Bering Sea. And to the extent that the ownership catcher vessels diminished significantly since inshore-offshore was first implemented, and the deliveries by Alaska is now only 1.7% of the TAC, we also exceed the ownership of the catcher fleet by Alaskans. Approximately 15 to 20% of our crew are Alaskans; the two regions that we work with represent 28% of the 56 communities and about 60% of the population, or about 4 times the population of Dutch Harbor and Akutan. This allocation in addition to being competition between the two sectors is also a competition between two regions, and I'm speaking in terms of Dutch Harbor and the CDQ communities. Dutch Harbor as you know is the number one port and has been for the last six or seven years in the United States. It benefits greatly from the services that it provides to both the offshore and inshore sector. In 1996 it had 2 million dollars in raw fish tax, \$2.7 million in landing tax, annual income is about \$56 million [sic] per household with a 1% unemployment rate, contrasted to the 56 CDQ communities with a population of 20,000, extremely high employment--around 20-30%, and a median income about \$20,000 or less. The Bering Sea CDQ communities really have not benefited from the pollock resource at their doorstep because of the shallow water and ice which makes the shoreside processing prohibitive, so the only benefits that have come to that region is through the CDQ program and those have primarily been royalty, wages and investments. And I want to show you some overheads here and they're

also provided in your document, which discuss why these benefits are not transferable with a change in allocation. While he's putting those up, I'd would like to tell you this information was provided to the McDowell group but we did not see any evidence of it in the report. One of the pieces of information we've provided which I'm not going to put up on the overhead was a breakeven analysis for our company. We've used audited payroll and revenue figures and it indicated to us that even a 5% shift would put us in the red which means that this would impact our ability to pay for CDQ royalties. Right here is a picture of a season, the horizontal line is an indication of the value of the pollock over the year and as you can see, it's worth most in February at the peak of the roe season and then it drops off significantly. The smaller lines there are based on NMFS catch data and length of season which indicate that, you can see the middle one is status quo and the inshore season is longer than the offshore, and then rising above that is what happens with an increased allocation to the inshore and below, that's what happens with an increased allocation to offshore. As you can see, the inshore season would be extended with a change in allocation, this is for 5 and 15%. And making the CDQ royalties worth much less because the fishery would occur after the roe season. These are audited payroll figures for the four vessels of Arctic Storm and Glacier Fish Company and we compared them with the highest shorebased wage figures that we could find, and I supplied you with classified ads in the Seattle Times; it's \$6 an hour and we included the overtime in a 12-hour shift and compared it to our company. Under a 5% allocation shift, our entry level workers would lose about \$2,300 and \$970 would be gained by shoreside; a change of allocation of 15% would be a loss to each one of our entry level employees of \$7,000; \$2,000 would be gained by onshore workers who would have to work about 15% longer period of time. So, you can see that about \$5,000 per entry level employee evaporates. . . . One more, I'll just quickly put it up there. This is an indication of over the entire season, and the middle one is a comparison of status quo in the center and then off to the right is what happens with a shift to inshore and off to the left is what happens with a shift to offshore. In closing, I'd just like to say that this information was not included in the report and we think that we would like to see that. We also found that the structure of the report tended to summarize some of the information gathered by the CDQ groups and their partners and then it was often challenged, or unsubstantiated opinion was offered. We would like to see that removed from the report and to have the CDQ groups and partners responses represented more fairly, and finally, it's just some simple information, demographic information such as I've provided to you as well as some of the tables, I think on page 18 of the CDQ report could be included in the Impact Assessment report we would have something to be able to compare the two regions and the impact allocation changes might have.

Council questions:

Behnken: I have a question, Donna, on your first graph. If a CDQ group had an offshore partner, why wouldn't that CDQ group go fish their CDQs with their CDQ partner as soon as the offshore season was over? Why would they wait until the end of the inshore season when the roe was less valuable?

Parker: The purpose of this graph is to show that it's not transferable. In other words--you don't have the benefit of seeing the breakeven analysis--but if we are either put out of business or we are no longer competitive in banking CDQ bids for royalties, we will no longer be CDQ partners. The point is it cannot be replaced by going to inshore partners because they will not be able to harvest the roe and the CDQ royalty will be drastically reduced. It's also reduced because there are less people competing for the CDQ royalty.

Behnken: So, your assumption, then, that you go out of business and they have to seek inshore. . .

Parker: Either we go out of business or our breakeven changes and so in order to move our breakeven back we may want a CDQ quota more than ever to stabilize our access to the resource, but we won't be able to afford it so we'll no longer be competitive in the CDQ world.

Change to Tape 18

Benton: Donna, I'm looking at your graphics on wages and I'm looking under your assumptions and I'm just curious what this means, it says that under number 'c', it says wages based on audited average production levels during the last days of 'A' and 'B' season. So, you chose the last days of the 'A' season and then averaged that across, or used that as the basis to cross the employment data for the 'A' season and you chose the last days of the 'B' season, how'd you do that?

Parker: We looked at our production on those days and the reason we did that is because those are the days that are going to be lost if our allocation is reduced and admittedly they are the most valuable days; the last fish you catch is always the most valuable because you've met your fixed costs.

Benton: So, that would be the day that . . .let's say if you use one day or three days, or whatever it is, that an individual would be making the highest crew share, is that right?

Parker: Absolutely, and that would be lost under an allocation shift.

Benton: It also shows that these are very high wages are based on that high data.

Parker: Well, that's why I showed you the next one so that you could see it over the entire season and I'd like to say that the next one represents only the pollock open access fishery, it does not include the CDQ fishery, or hake or yellowfin sole, so the wages of the workers could actually be much higher.

Kyle: Just for clarification, Donna, on the onshore wages, did you factor in the free room and board, that sort of stuff?

Parker: Absolutely, we have free room and board on our vessels as well.

Kyle: Well, if I may, Mr. Chairman. We have an offshore partner in the CDQ group and I know that their wages get debited for certain expenses, like that when they're aboard. That's not true in . . .

Parker: No, maybe that's why we have such a high Alaska hire rate.

-end of questions-

11:44 am John Bundy, Glacier Fish. I want to make two points. Substantively, the Council should not regulate the pollock in a manner that it becomes like the salmon industry. And secondly, as a procedural matter, the analysis in my opinion is not sufficient to send out at this time for public review. My name is John Bundy, I'm president of Glacier Fish Company; we own and operate two catcher processors. We're the kind of business that I think the Council members, particularly those from Alaska, should be concerned about. In the pollock universe we are small, we're independent, we're 100% U.S.-owned, and we're 50% Alaska-owned. Our owners that I answer to include the Board of Directors of Norton Sound Economic Development Corporation, a CDQ group made up of the 15 communities of Norton Sound. Their investment in the pollock industry through Glacier Fish is more than \$21 million and we together with Donna's company and Donna's CDQ partner, represent the only Alaskan investment in . . .[unintelligible word]. . . pollock processing. We have a six-year history of creating rural economic development in Western Alaska, providing family wage jobs. Our small company has paid direct cash payments to the Norton Sound region of over \$32 million in that time in the form of wages and payments to local fishermen and CDQ royalties. That's not something that we started yesterday. We make a variety of products from pollock; sell them to a variety of markets, North America, Europe, as well as Asia. Since our processing is closer to the resources we are able to make a higher quality surimi and roe product from pollock

and we manufacture a deep-skin fillet block for domestic consumption. Others will talk more about the nature of the shoreside system which in terms of the Dutch Harbor plants acts more as a low-cost pipeline of materials to Japan and other places in Asia for re-processing. But the dangers of over-reliance on that market which is a great market is obvious to anyone who's presently trying to sell anything to Japan, whether it's surimi, roe, salmon, herring, blackcod or turbot. By contrast, the catcher processor offshore system is less dependent on the Japanese system because the offshore system produces a greater variety of species and products and sells into a greater variety of global markets. Our operation is a case in point. We can shift our production to filets and away from surimi if market conditions dictate as they do now. On the other hand, the Dutch Harbor plant and motherships stay with surimi no matter what because that is what their parents in Japan need and that's what they need in Japan. In short, I just want to emphasize that the offshore system has greater incentives to drive prices up since we ourselves are harvesters while the shoreside system has powerful incentives to keep prices low and to funnel the material elsewhere for secondary and other value-added processing. Therefore, a proper analysis at this time must include the cost side of the ledger which would show, first, that any onshore allocation would take away family wage jobs from Alaskans and replace them with minimum wage jobs. Second, decrease the value of investment by Alaskans in the pollock industry; third, weaken the one sector that is capable of paying the highest royalties for CDQ; fourth punish the companies that have contributed most to economic development in rural Alaska; fifth, reduce product quality and mix and total overall value of the resource; sixth, shift raw material away from more competitive and diversified global markets towards a more closed Japan-dominated market, and finally, I think in the long run, reduce the Alaska state tax revenues. The adverse market consequences that I've described are not mere speculation; it's already happened in many respects since 1992; the ex-vessel price to fishermen for pollock has gone down, the ownership by plants and catcher vessels has increased to approximately now 70% of the inshore harvesting capacity, so there are fewer and fewer independent catcher boats, and Alaska ownership in catcher vessels has decreased to just 1.7%. I cannot emphasize strongly enough that the cost analysis under the regulatory flexibility act is crucial in this process and before any proposal of changed allocation is sent to the public, particularly in light of this decision, the importance of this decision to the . . . an important U.S. fishery and to the impacts of these allocations upon economically disadvantaged coastal communities. After-the-fact analysis is not sufficient to meet the mandate of that Act. New NMFS guidelines released just last week make it clear. . . that the assessment must be, quote, sufficient to allow the Council to make an informed decision and to present quantitatively and qualitatively expected net benefits for management alternatives under consideration, end quote. Thank you.

No questions.

11:50 am John Gauvin, Groundfish Forum. I'll tell you up front that the Groundfish Forum has maintained a neutrality position on the merits of who should get more in this allocation. However, we are concerned about downstream effects of changes in the allocation. We decided on a . . . admittedly the scenario that changed the allocation the most, that would be one that took, 3d, where the factory trawlers are reduced to 40%. The reason we focused on that is that it makes our point in spades. It also is a level in change in the allocation that I think starts to bring in very strong incentives for pollock factory trawlers to actually make large capital investments to do our fisheries better. As you know, we're involved in the flatfish fisheries, in Atka mackerel. What I'm going to show you is some gross revenue estimates based on 1997. I'm going to try to value what the change in the pollock allocation under 3d is worth to pollock factory trawlers. We concentrated on that because we've looked at the data on fisheries those guys do when they're not doing pollock and they do our fisheries. And then we're going to show you what we think the yellowfin sole fishery and Atka mackerel fisheries are worth and make some comparisons. Where I'd like to end up is to suggest that you at least incorporate this possibility of large spillover or preemptive effects into the analysis at this time. Some of the baseline data are there; you need to pull it together and make some sort of statement of what you think the possibilities are here. And, I'll run through this presentation very quickly. We used 1997 prices; we figure that the pollock factory trawlers right now are getting about 55% of the pollock; if they're reduced down to 40, we estimate that's worth \$92 million. How we came up with that estimate is based on, again, we figured. . . this is how we got to 148,000 metric tons

of fish at stake here in this alternative, based on a 1.1 million metric ton quota into the future. Obviously that's an assumption we had to make to be able to come up with a number. But, if you look at where they're getting 55%, they're down to 40%, subtract for a likely discard rate based on current performance, you go down under that TAC scenario, 396,000 metric tons round fish. We used the recovery rates which we believe to be as accurate as possible, and the current breakout of products that pollock boats make, so this is like taking a ton of pollock and saying it goes into these product forms on average based on the NMFS data--this is how much product you get out of a ton of pollock for pollock factory trawlers. We used 1997 prices, which are higher than 1996 prices; we did that because we had 1997 prices. We tried to be as current as possible. So, a ton of pollock is worth \$624 round weight equivalent, ton of pollock. We looked at entry patterns in the fisheries. Pollock factory trawlers typically finish the pollock season and go into H&G, or, I shouldn't call them H&G fisheries, call them fisheries that we do, yellowfin sole, o-flats to some degree, and Atka mackerel. What this is, is on the Y axis, the number of boats in a target fishery per week. We used the PSC rates to get the number in that target. That comes off the NMFS bulletin board. You'll see that the flatfish fishery and Atka mackerel, in any one week you can have 15 pollock factory trawlers in the targets. Using the same year for the catcher boats, just to give you a comparison, these are shoreside and at-sea catcher boats, you'll note over the same rough period of time, in 1997, none of them in Atka mackerel, very few of them in the flatfish fisheries, and most of them doing cod. This is the premise we used to say, boy, if they lose fish they'd probably try to make up their lost revenues in our fisheries. What we did here was try to estimate what our fisheries are worth and sorry about the subliminal message about the flatfish fishery. Yellowfin sole, these are products forms that are made, the percentages of the catch in 1997 that went into those product forms, PRRs, and so what we did was we said, O.K., a ton of yellowfin sole on average in that year was worth about \$480 exvessel, that's F.O.B. Dutch. Atka mackerel's mostly made into H&G, it was a pretty. . . we just assumed it all went to H&G, it didn't matter for the accuracy here. About \$582 a ton. From this we estimated that our fisheries of yellowfin sole. . . [commenting on a graphic, 'that's Atka mackerel, in a frozen block']. . . Atka mackerel and yellowfin sole combined value are \$105 million, 1997. So from this we did the brave assumption here that if pollock factory trawlers are losing \$92 million and they had to come into our fishery to try make some of that up, in the extreme, which is not likely to happen, but in the extreme, they'd have to take 88.3% of those two fisheries to make up for that revenue. That's a large percentage. Here's some factors I'd like to run you through. This sort of conditions how far the pollock factory trawlers could go in our fisheries. That's supposed to say 'high-volume harvesters'. We've seen that these guys are high-volume harvesters; they can catch three to five times more per day and put it through their factories than the typical H&G boat can. For Atka mackerel, they made surimi out of Atka mackerel, that's a low-recovery rate product, that allowed them to have relatively more freezing power; they did three to five times more than a typical Atka mackerel H&G boat did. We believe under a shorter pollock season they'd have low opportunity costs and they'd have. . . the Pacific whiting fishery now under the agreement they have allows them to not have to go back to go Pacific whiting fishing, so that creates incentives to make our fisheries better than doing nothing. They could in fact if the technology's available under a large reallocation, try to make surimi out of yellowfin sole. If they're successful at that, that would open up the avenue to larger and larger catches per day because they could put more through the factories than they currently can. Under a reallocation there would be fewer fishing days for the pollock factory trawlers. In order to get crew you have to offer them some obligations of fishing time. If you reduce the number of days in pollock, you're going to have to say to them, well, and we'll also give you some days in yellowfin sole or Atka mackerel. So, I think crew contract obligations are an important consideration and incentive. In fact, I think even if it's not economic in the long run for them to be in our fisheries 'cause they can't operate over the average variable cost, the crew contract obligations could add to the incentive to try it. They fish yellowfin sole typically in the spring; if pollock were over earlier after 'A' season they'd be in the highest CPUE part of that fishery which would allow them to have high CPUEs for yellowfin sole. And, IR/IU regulations put a great advantage to boats with meal plants. H&G boats have to avoid catching things they can't process; boats with meal plants can run that through the meal plants, so I think that gives these boats an advantage that they didn't have before. Finally, the yellowfin sole fishery and Atka mackerel are currently fully subscribed fisheries. We have some pollock boats in there; there's actually not that many at this time, but we caught 93% of the yellowfin sole TAC in 1997, so there isn't a lot of room for a bunch of new boats to come in.

It's also a PSC limited fishery. We don't think they could take all of our fish, we think we'd be fishing at the same time, so if we're fishing concurrently we're going to catch something. But under that sort of condition, how much they can take, but nonetheless, with their extra, what one my members calls it, firepower, they're going to get a pretty big piece of it. And then lastly I'd like to suggest that you as managers, if you are going to do a large reallocation of this pollock, could put sideboards on it. You have a license limitation program that could be used effectively to keep some of these boats from making the. . .or as many of these boats making that transition into these fisheries. That's all I have, Mr. Chairman.

Council questions:

Kyle: Slide, number 2, I think. I just wanted to get some clarification from John on the one that shows the pollock per metric ton, the value. . .where you get the \$682 or whatever. I was just curious, I don't understand how you had those different product forms up there, because it's my impression that generally a surimi boat doesn't do deep-skin fillets and. . .could you just help me understand how that's. . .?

Gauvin: Yes, we didn't concentrate on surimi boats. We said pollock factory trawlers, we defined the universe of those and then looked at the products that are made and the average. . .on average for a ton of fish, some of these caught by fillet boats, they're in the same sector as the surimi boats, so this is how the products break out with their recovery rates, that's how much finished product in these categories that you'd get from a ton of pollock, on average based on 1997 mix of products.

Pereyra: John, you looked at the spillover effect going from inshore to offshore, increasing the inshore allocation. What if you did a reverse? What kind of a spillover effect would you expect to have if you increase the offshore allocation, reduce the inshore?

Gauvin: We actually, if you read my paper which is your pile of documents, we looked at that scenario to some degree. We looked at what a ton of pollock was worth to them and it was more gross revenue per ton, with higher recovery rates, etc., and we said, O.K., what's that going to mean under the same scenario. . .we ran. What stopped us was, when we got to that effort data, how it distributes between the different targets, we realized that boy, there's a problem for some reason over the last two years the shoreside hasn't made a big, I use the word incursion, into flatfish fisheries and they haven't done any Atka mackerel at all. Atka mackerel's too far away for them to do, I believe. And I think with yellowfin sole there's only certain windows of time when the yellowfin sole are close enough to Dutch Harbor or other plants to really put much of an effort into it. I think the last two years have shown shoreside guys that the flatfish fisheries are hard to do for them, and they haven't increased their effort much, so, it kind of stopped there. We speculated on it and then we said, it's too far a reach.

Pereyra: Would it be fair to say then, John, that if the offshore allocation were increased that the spillover effect which currently occurs would be less?

Gauvin: It could be.

Behnken: Quick question. In the AP minutes they recommended, their #2, was that we include consideration of these spillover effects. Does that encompass your concerns, is that your recommendation for Council action at this point?

Gauvin: Yeah. We asked that the AP consider this after my presentation. We're not trying to hold up the document; we think a lot of this baseline information is in there, you'll have some tables in there about how many factory trawlers in flatfish targets per week, that's identical to what I've produced. The revenue information is there. I think the analysts are a little bit uncomfortable about sort of saying, well, what are the possibilities here, but I think speculation on that is warranted in a separate section because I think there's enough record of these

boats doing it in the face of a slightly lower pollock quota in the last two years, so yeah, I think you should have a dedicated section to this. It may have to be qualitative but at least makes me think that the Council is thinking of this when they make their final decision.

Benton: John, I think you in part answered my question, which is, as I recall at different Council meetings and different times that this problem has already resurfaced, for example, you put some of the information up with regard to the Atka mackerel fishery, and where surimi boats have already moved into the Atka mackerel fishery and actually caused quite a problem in management for that fishery, at least in one year. So, in some ways it seems almost from what you're saying to us is that irrespective of inshore-offshore, there's a problem or a potential problem with some preemption coming from the pollock surimi fleet into some of the other fisheries, and my question really is, is part of your message here that irrespective of inshore-offshore, the Council should consider looking at this issue and perhaps adopting or looking at some management measures to try and contain this before it becomes a larger problem?

Gauvin: . . . I don't think we think we're the only ones that should be able to do these fisheries, but this is the core of what we do. It's not like we do pollock and then come back and top. . . you know, get a few weeks on this stuff. This is what the H&G boats do, so yeah, we have put in a proposal in fact for what I believe would be sideboards with species endorsement based on the boat having some history in these fisheries of significance. Now, I guess what my analysis focused on was a large change. I think this potential for preemption and this fishing effort in our fisheries is happening already under a lower pollock quota or under lower pollock prices, for instance, but it's a question of degrees. This allocation really increased possibility and the need for recovering revenue and it's extreme. So, a large reallocation obviously is of great concern to us. At the same time, a large reallocation, as I said, increases the incentives for capital investment to make surimi out of yellowfin sole to put more boats in there at a faster pace. . . we don't think we're the only ones who get allowed to do these fisheries but we think we should have a fair chance.

Benton: Nonetheless, again irrespective of inshore-offshore, you do have a proposal in that you think the Council should look at to deal with this before it becomes a problem. If I understand your point, which is, if you make a large shift in quota for pollock then that's going to have some ripple effects and you want us to consider that and I think that's fair. But, would you say that if we stayed at status quo on inshore-offshore that we should not consider the measures that you've put in for consideration by the Council to prevent this kind of preemption that's occurring.

Gauvin: Well, we submitted the proposal before inshore-offshore was really going here. We did it because we thought it was something that would identify a problem ahead of time like you're supposed to do in the proposal process and give an avenue of avoiding a train wreck in the future. But the Council didn't do anything with our proposal; it didn't get a very high priority and it languishes in some briefing book somewhere.

Benton: That's sort of a yes, right?

Gauvin: Yes, that's a yes.

[Council takes lunch break]

1:17 pm Terry Leitzell, Victor Seafoods. What I wanted to do is two things. I wanted to express my opinion to the Council that the document should go out for public review. I think it is, although flawed in some respects, certainly adequate and in good enough shape to do. But also to make a few comments about the inshore sector of which we are part. I feel a little bit as if we're in the middle of a battle of behemoths, of elephants, and we're a smaller company and I wanted to tell you just enough about us to make it clear to the Council that the inshore sector is not homogeneous, that there are different players and companies that do different kinds of things.

We own and operate the second largest pollock floating processor, the Northern Victor. We are part of the inshore sector and we operate in inshore waters in Beaver Inlet in Alaska. We are 100% U.S.-owned and have about 300 employees. Our production is pollock fillets; we don't have surimi equipment, we don't make surimi, we make deep-skin fillets, regular fillets, and other kinds of pollock fillet products. Most of our production is in fact deep-skin fillets and we were one of the companies that pioneered the development of deep-skin fillets. Our market is the United States [Change to Tape 19] except, of course, for roe. We sell to all of the normal markets for fillets and are one of the largest suppliers of fish that goes to McDonalds. On the utilization side we do have a fish meal plant and I know you will hear some argument that fish meal should not be taken into account in looking at utilization figures. Our utilization figures are high, but frankly even if you subtract out the fish meal plant we are still in our operation a couple of percentage points higher than the numbers in the document for the offshore catcher-processor fleet and we as a pollock fillet producer with a fish meal plant are listed in the document as producing the highest value per ton of round fish, I think it's about \$618. Finally, we do pay lots of Alaska taxes. We operate in Alaska waters, we move after the pollock season and cod season to go to Prince William Sound to process pink salmon and consequently we pay the highest rate of tax in Alaska. So, I want to make those comments just again to put you in a mindset this afternoon as you listen to a lot of testimony that at least in the inshore sector there is variation. We are not all the same; we don't all do the same thing, we don't make the same kind of products, we don't all have the same kind of ownership. But I also want to stress that the document is in fact accurate, I think, in its portrayal of the sector. I'm not here to argue that it needs to be changed or amended in order to make these points that I've made. And, frankly, just as a last comment, in terms of the overall analysis and the comprehensiveness of the document, I certainly wish in my earlier days with NMFS a couple of decades ago that we'd had some documents like this. I think this one is certainly ready to go out for public comment. Thank you.

Council questions:

Pereyra: Terry, in the document we have, we get some recent information from the Impact Assessment people regarding the Seattle impacts and so forth, and in they characterize the inshore floating processors of which you are a part of as operating in relatively fixed location in state waters, having minimal interactions with the shoreside communities and being sort of industrial enclaves. Is that an accurate portrayal, do you feel?

Leitzell: We do operate in one place, we are anchored in an inlet both for pollock 'A' and for pollock 'B' in the same place. Our crews do not go into town, we are somewhat remote from Dutch Harbor. We obviously use Dutch Harbor for logistical support; we have an office in Dutch Harbor. But we are fairly isolated from that community.

Pereyra: And in that context, what sort of investments has your company made in Alaska?

Leitzell: Aside from having an office in Alaska, we have not made investments in Alaska as such. We've made our capital investment obviously in a processing vessel and took it to Alaska.

Benton: Terry, you mentioned that you process salmon, or pink salmon, in the off season. Roughly, how many Alaska salmon fishermen deliver to your vessel?

Leitzell: I think it's about a dozen. . . that's a number I'd have to look and supply you, however.

Benton: And this is in Prince William Sound?

Leitzell: Yes.

Benton: And would you say that that's an important market for some of the people that live in those communities?

Leitzell: Yes, I think it certainly is. Obviously Prince William Sound has been heavily impacted by various events over the past number of years. We helped to develop a pink salmon fillet market in Europe for that product and we're hoping to continue to expand it.

Samuelson: Terry, in the updated employment information, in '96 it says the Northern Victor had roughly 438 employees, Alaska residents 2; in 1997 445 employees, Alaska residents 2, for a 99.6% non-Alaskan employment. Why is that?

Leitzell: We have not had much luck in hiring in Alaska, we have not had the advantage of having a CDQ partner, as I think you probably know. And frankly we're a small company and we simply haven't been able to make the time and money investment to do a lot of recruiting in Alaska.

Samuelson: Do you participate in any other fisheries, besides pollock and salmon fisheries, with that vessel?

Leitzell: Yes, we do. We this year also processed crab, and worked with an independent crab fleet in the opilio season and we participate in the cod fishery after the pollock 'A' season, again with a fleet of independent boats, probably 15 or 20.

Austin: I'm not sure how to phrase this question, but I'm very concerned about the flow product to the American consumer and note that you're producing the deep-skin fillets. Could you comment on the impact on that market alone? I mean, what is your capacity if there is loss of offshore capacity, what is your capacity to fulfill that market demand?

Leitzell: We produce depending on the year, probably 10 to 15% of the deep-skin fillets that are produced from the fishery as a whole. Obviously we operate at capacity; we would operate for a longer period of time if there were a larger allocation inshore and would be able to take up at least part of that market. I don't have specific numbers; I could probably provide you with some more information.

Austin: I'm sure you have an understanding of your industry. If that market demand is there, would the price of these deep-skin fillets to the public go up, or there be additional onshore capital investment to produce this product?

Leitzell: That's hard to predict. These markets are worldwide in the sense that whitefish markets around the world and the supply of cod and whiting and pollock all interact to some extent. So, I think within the range that we're dealing with here, that we're unlikely to see any fairly serious change. The demand side of the market, particularly from the fast-food suppliers is probably the much more important determinant and they make those decisions based on policy and what they think the consumer wants.

End of questions.

1:27 pm David Long, Arctic Storm. . . I'm a 30-year resident of Alaska and my wife's a 39-year resident. I have four children which I'm raising in Alaska, very committed to Alaskan interests. I've been involved in the fishing industry in Alaska since the early '70s. I've been involved in longlining halibut, crabbing opilio, Tanner and king crab, trolled for cod, sole and pollock as skipper of a catcher vessel, particularly the Peggy Jo for Oscar Dyson for seven years, and I'm currently employed by Arctic Storm, Incorporated as the fish master on the Arctic Storm and the Arctic Fjord. I'm also a Bristol Bay salmon permit holder and boat owner which I operate every year. I feel I'm pretty well integrated into the fishery and I'm pretty concerned about any regulatory changes that might be made here. My interests are in Alaska and the long-term viability of this industry for our state. I'd like to address the issue concerning the CVOA. I think excluding any group from the CVOA at this time, especially during 'A' season, is extremely unreasonable and unfair especially when you consider the critical importance of

that area economically to Alaskans and our CDQ partners. I can assure you it's the only place economically and scientifically to fish during the 'A' season. Inside the CVOA is where you find the largest fish which constitutes your best recovery for roe and meat and dollar per pound. In most instances to be forced to fish north and west of the CVOA you would be catching smaller fish and less consistent size and roe quality wouldn't be as good. Forcing us to fish outside the CVOA would increase our bycatch, I feel. The fish are just smaller, it's pretty simple. To change the allocation of this CVOA during 'A' season I think that you have to look at the industry as a whole, not just one sector. Inside the CVOA is the best place to fish during 'A' season to get the best utilization of the resource. Under the current allocation I feel there's enough fish for everybody in the CVOA from my experience over many years' fishing in there and increasing the offshore sector's allocation in the CVOA, or in the Bering Sea would increase the removal of pollock from the CVOA over the year. I think the current allocation offers the best management for the region and maintaining the current allocation will extend the stability throughout the fishing industry. I think we've experienced the current level of stability that's been difficult to reach from the last decisions you made appropriating the catch between the offshore and inshore. I think your policy has encouraged the investments of millions of dollars into this fishing industry in the offshore and onshore with your last policy change. I think we've just now reached some stability there. I think to change it to the onshore side would just mainly increase. . . would be for the foreign-owned interests on shore, mostly Japanese. I mean, they certainly own some of the biggest fish companies in the world, if not the fish company's that's the biggest in the world and they own the 100% of the shorebased. . . some of these interests. So, I think it would be ill advised at this time to make any reapportionment. I'd also like to say that inside the CVOA and the critical habitat area where I've traveled much of the time to and from the sea delivering, that I see a large amount of pollock in and around these rookeries and I have yet to see any data concerning the abundance of the fish right off the beach around the critical habitat area. And, also I see more orca whales in pods around these critical habitat areas and I was just wondering has anybody ever gathered any data within 3 to 10 miles of these rookeries, because you go inside those rookeries and it's just. . . fish is mammy most of the time from my experience. So, that's all I have to say.

Council questions:

Pereyra: Capt. Long, when you're operating throughout the CVOA, where do you see sea lions primarily? Do you see a lot of them off a ways from these areas?

Long: No, we don't see hardly any sea lions, even when we're 10, 15 miles out from these rookeries. Offshore, it's just. . . you might see one a year, you just don't see them very often. I don't see any reason for them to leave that rookery. I mean, inside most of those rookeries, there's just a terrific abundance of fish and I've never seen any statistical data relating to that. You don't see any, really.

End of questions

1:33 pm Tammy Fowler Pound, Unalaska. . . I am a resident of Unalaska, arriving for the first time on April Fool's day of 1983, at the urging of my future husband. There was not a lot happening in Dutch Harbor at that time and I was only going to stay for one year. I guess the joke was on me because 5 years later I was getting married in the local church surrounded by my friends in a town I now called home. In May of 1993 my husband Jack was laid off from his job with a company involved in the catching and processing of pollock in the Bering Sea. This layoff was due in part to the instability created in the pollock industry from the first inshore-offshore allocation. Having had our first child and being unprepared for the loss of income by the only wage earner in the family, we uprooted and we returned to familiar ground and family support in Seattle. Two and a half years later we returned to Dutch Harbor full time for an employment opportunity with a local support service and, just recently, American Seafoods. We enrolled our child in school, added another child to our family and purchased a home. I'm not unlike many other residents in the community. I go to school plays, I own property, I do dishes and wash the clothes, I shop for groceries in the local stores and volunteer as the vice-chair on the

board of directors for USAFE, a non-profit organization. And once again I worry that my family will suffer from another job loss with the possibility of the current BSAI allocation being shifted in June. This has been a very divisive issue in the community, onshore versus offshore. It has been discussed in many different forums, the local papers, city council chambers, chamber of commerce luncheons, as well as individual conversations among community members. One common theme in all of these discussions is economic stability for the community. I feel an allocation increase for either sector of the industry will cause a great deal of instability regarding existing job loss and the decrease of future opportunities. A shift in favor of the shoreside will cause job loss in the support sector of the industry due to less consumption of services by the catcher-processor fleet. I do not feel that this will be offset by increased landings of pollock in Unalaska-Dutch Harbor shore plants. King Cove, Sand Point and Akutan will also be competing for the additional stock allocation. A shift in favor of the offshore sector would also create unstable atmosphere with decreased production on shoreside which may result in job loss and local tax revenue. Unalaska, its residents and the State of Alaska benefit from the involvement of both the inshore and offshore sectors. The support services utilized by these sectors are highly integrated providing employment opportunities, tax revenues, and a stable economy. Mr. Chairman, with a rollover of the allocation everybody wins. All members of the community are important and benefit from a reasonable expectation of economic stability. I would like to have entered into the public record letters I have brought with me from other members in the community of Unalaska advocating a rollover based on economic stability. I have presented those to Council staff and there is a copy for each member of the Council. And, again I thank you for your time.

Lauber: Is that the packet we have here?

Pound: Yes, sir.

Council questions:

Mace: We'll, make this decision in June, of course, but what we're trying to find out today, is this analysis adequate and should it be sent out for public review. Are there any changes that you can suggest in it?

Pound: I have read quite a bit of it; I can't claim to be an expert on it. There's a lot of issues in there that even I don't understand. I don't understand a lot of them, but I do feel that because of what has happened to me previously I feel that if there is a shift in the allocation that that is going to once again create an unstable atmosphere in Dutch Harbor-Unalaska and there is a huge potential for job losses in the support sectors or the shoreside, . . . or . . . it'll be unstable.

End of questions.

1:39 pm Don Giles, Terry Gardner, Bill Terhar. . . My name is Don Giles, I'm president and CEO of Icicle Seafoods. With me today is Terry Gardner, president of Norquest Seafoods, Bill Terhar, president of Ocean Beauty Seafoods. We come before the Council today not part of any coalition or association but rather as individual companies to represent a sector of the industry that is potentially being overlooked as the Council addresses complicated issues before it. While we all have common concerns, we are all independent operators and competitors and each of us will speak individually about our concerns. My comments today should not be taken as an endorsement for onshore nor the offshore sector. It is not our intent to delay the analysis or slow down the decision-making process. However, I feel it's important for you to hear real concerns from those of us not directly involved in the Bering Sea pollock fishery, but who may feel the ramifications of this and other future Council decisions. I'd like to repeat, my comments today should not be taken as an endorsement for onshore nor offshore. It is not my intention to delay the analysis or slow down the decision-making process. Icicle Seafoods is 100% American-owned and operated with a majority of our stockholders being Alaskan fishermen and residents. We purchase, process all species of crab, herring, halibut, sablefish and salmon throughout the State of Alaska. Our buying and processing operations extend as far north as Norton Sound and as far south and

southern southeast Alaska. Our processing locations include St. Paul, Dutch Harbor, Homer, Seward, and Petersburg, Alaska, Bellingham and Everett, Washington, and Astoria, Oregon. We have four floating processors that operate throughout Alaska but primarily in Western Alaska herring and salmon fisheries and the Bering Sea crab fisheries. We do not participate in the Bering Sea pollock fishery, however we do have a surimi analog plant in Bellingham, Washington, and we purchase surimi from both the onshore and offshore sectors. In 1997 we purchased over 110 million pounds of product with an exvessel value in excess of \$61 million. One hundred percent of our purchases were from independent fishermen. By value, 70% of our 1997 purchases came from Alaska resident fishermen residing in 112 communities throughout Alaska. Again, by value, 95% of our purchases in 1997 came from residents of Alaska, Washington, Oregon. At peak season we employ approximately 2500 people in Alaska, Washington, and Oregon and our payroll for those states, Alaska, Washington, Oregon, exceeded \$17 million in 1997. The non-pollock sector of the business in Alaska is huge and benefits tens of thousands of harvesters, seafood workers, processors, and those communities and support businesses that are dependent on the industry throughout Alaska, Washington, and Oregon. I understand the current initial analysis on inshore-offshore includes the examination of potential impacts of any allocation decision on western Alaska and the Bering Sea communities, and even some communities in Washington state. Unfortunately, it appears that the examination of the impacts of a Bering Sea allocation decision on the non-pollock harvesting and processing sector, along with the employment, support business and affected communities in the Gulf of Alaska have been left out. The focus of the current debate has been on the current pollock participants. However, there is a huge sector that has been overlooked, that being the non-pollock participants that are a vital part of the North Pacific seafood industry. As a large operator and employer in the Gulf of Alaska, the Bering Sea, and Washington state, this is a concern to us. There are likely more Alaskan residents in the Gulf making their living as fishermen, processing workers, plant and office management personnel and fish-related support work in these communities than the whole pollock industry put together. Any allocation decision in the Bering Sea that weakens this infrastructure in the Gulf or weakens the non-pollock sector in Western Alaska must be taken into consideration. The issue is much more complicated than just the allocating between onshore and offshore, foreign versus domestic. There are ramifications for all participants throughout the North Pacific seafood industry. If the number of players changes significantly or control is further consolidated, there will be ripple effects throughout the industry for both pollock and non-pollock participants. There has been concern raised throughout this debate regarding vertical and horizontal integration, consolidation, and market control. I share these concerns as all sectors of the North Pacific seafood industry are interrelated regardless of fishery, species and area. Economic advantage to one sector is a disadvantage to the other. Any consolidation of existing processing capacity means fewer jobs and fewer markets for our fishermen in the Gulf and the Bering Sea. It also leaves a greater control of all markets by fewer players. The inshore-offshore allocation decision before you now, coupled with other issues such as Senate Bill 1221 and future management measures, all have the potential of making big winners and big losers. My concern is some of the potential losers may not immediately be obvious to you and may not be directly involved in the current allocation fight. What I hope is obvious, is that we want the record to reflect that non-pollock sector, both in the Bering Sea and Gulf of Alaska, will be impacted by current and future Council decisions. In closing, let me reiterate, we are not asking for further analysis prior to this decision, or for delay of this particular decision. Rather, what we are asking is that the Council put all participants on notice that they have heard our concerns and intend to monitor the impact of this decision on participants, both fishermen and processors in both the pollock and non-pollock fisheries off of all Alaska's coast, including the Gulf of Alaska. In addition, we'd like the Council to formally initiate a review of these impacts for use in any future allocation decisions, whether that decision is a future action on inshore-offshore or due to passage of Senate Bill 1221, or action in some other form of comprehensive rationalization, like IFQs. The world's fish markets are increasingly complex and large processors continue to vertically integrate in their bid to control market share. Given the importance of independent fishermen and processors, both in the pollock and non-pollock fisheries to the health of the small coastal communities in Alaska, Washington, and Oregon, we think it's appropriate for the Council to initiate such review in preparation for future decisions. Thank you for hearing my concerns. At this point, Bill Terhar has some words.

Bill Terhar: . . . Much of what Don has gone over is a joint statement between the three companies that are here represented, but I will tell you a little bit about Ocean Beauty. I'm Bill Terhar and I'm president of Ocean Beauty. Ocean Beauty has seafood processing facilities in Alaska in Kodiak, Cordova, Naknek and Petersburg. In Oregon, we're in Astoria, Newport, and Coos Bay. In the state of Washington, we're in Seattle and in Southwest Washington, we're in Chinook and Bellingham, and we also have two smoked salmon factories in California and Ocean Beauty has some retail outlet stores and distribution outlets in seven western states. At peak we employ about 2700 employees in Alaska, Washington and Oregon. Our facilities process salmon, a salmon-based company, Oregon coast hake in H&G and fillet form, crab, Pacific cod, halibut, sablefish, and Central Gulf pollock in fillet form. Again, I think it's important for us today to convey to you that we're not here to endorse one side or the other, offshore, inshore, anyone else. Nor are we here to delay the decision process that you're going through. Everybody in this room has gone through months, years, whatever it may be, of decision-making process and heard enough testimony. What we're asking for is that once you have made your decision, that there is a monitoring effect or a method that can be put in that allows some study and some monitoring for the effect thereof of those decisions. Again, I'm not here and wouldn't have enough background in what you all have been going through to even look at your document and your summary to know enough to endorse it, to tell you need to do more to it, you need more study, you need more of anything. I'm simply asking for, once you have made your decision, a method by which to go forward with to study the effects.

Terry Gardner: . . . I'm the president of Norquest Seafoods, and we have a combination of shoreplants in Alaska and floating processors. We have shoreplants in Ketchikan, Petersburg, Cordova, and recently in Chignik. Our floating processors work from Southeast all the way up to Norton Sound in both herring, salmon and crab business. Company-wide, we process salmon, herring, crab, halibut, blackcod and many other [Change to Tape 20] more minor species. We're also not involved in the cod and pollock fisheries in the Bering Sea. We employ about a thousand people at the peak and a lot of our facilities run year-round, both on the floating side and on the shorebased side. Primarily and almost exclusively we buy fish from independent fishermen, some 500 more or less full-time fishermen and a lot of other fishermen are delivering to us a partial portion of their catch. I think that if the only thing that we were seeing coming down the track was a debate between a few percentage points of reallocation of pollock in the Bering Sea between one sector and another there really wouldn't be much need to testify here today about impacts in the long term to other sectors of the industry, but as we look out there we see this debate over the onshore-offshore allocation, debate in Congress over the Stevens bill that may have other types of allocation impacts, discussion about various IQ proposals coming down the road, and if we look at the long term we wonder what is the design. Does somebody have a plan? Is there something coming down the track, what is this going to look like; how many players will be left. Anyway, I guess in conclusion, I'd like for you to look at the cumulative impact in many areas for our sector of the industry too and where this all ends up, with all the decisions coming down, not just the one today.

Council questions:

Kyle: For Terry, I didn't understand what you were starting to say about the cumulative impacts. It sounded like you were talking about if there was a large shift instead of a small shift. Would you explain that?

Gardner: Specifically, just to give an example, our company's looked at entry to bottomfish opportunities in both the onshore and offshore side and so as somebody making an investment and you're going to have to talk to your shareholders and the bank, you look out there, well what's coming down the track. If we have an operation will we have resource, and so we're looking at all of these things because you're making a long-term investment and you can see that all of these would affect, a reallocation in essence, and change the competitiveness as to who's in, who's out, through any one of these measures. And then you'd ask yourself, well maybe we've made an investment and there's no fish; we don't have access through the cumulative effect of all these. Any one in isolation may not have a significant impact.

O'Leary: Don, I understand that you fellows are on the periphery of this and you don't want to take sides, but you were discussing market implications and just for myself, could you expand upon your comments? I mean, what kind of market implications are you talking about, . . . [unintelligible]. . . talking vertical integration and how that. . . expand upon how that affects you or how you perceive that may affect you down the road if there's substantial shifts either way.

Giles: Well, in our sector of the business, what distributes the most economic benefit to the most communities is buying from independent fishermen and I think there's a concern about vertical integration of controlling the fishing fleets, controlling the resource from the fishing grounds to the processing ground, to marketing the product and I think there has been concerns raised in this debate, I think you've heard them all, and we share some of those concerns.

Behnken: I guess, to Don. We have a recommendation from the AP to include within this analysis some of the kind of considerations I think you're raising about impacts to non-pollock fishermen. But from what I'm hearing from you, maybe that doesn't go far enough. Not that you're saying hold back this analysis, but do you feel like we need to start gathering other data, sort of separate from the inshore-offshore so we have a baseline to look at down the road, or do you think what the AP has recommended encompasses your concerns.

Giles: I haven't seen exactly what the AP recommended, but I would think once we get past whatever decision the Council's going to make, we think there ought to be a thorough examination and analysis going forward that's fairly comprehensive not only in the Bering Sea but throughout the rest of the state of Alaska. One thing that has concerned us is through this whole fight, if you will, between the onshore and offshore, both sectors have been spinning their message throughout the rest of the state of Alaska on what our business, the non-pollock business looks like, whether somebody gets more fish or somebody gets less fish or somebody gets fish taken away, they haven't done a very good job of defining the non-pollock industry and non-pollock fisheries throughout the state have been drug into this fight. I'd like to read you something that just came out in one of the Southeast Alaska Gillnet Association, their newsletter updating their members, Southeast gillnetters, on issues in front of the Legislature. They talk about HCR 33, Resolution Allocating Salmon. "This resolution will put subsistence and sports uses, resident and non-resident above commercial uses. The bill was scheduled for hearing on 4/15/98 and was canceled. It has been suggested that this bill was introduced in reaction to the inshore-offshore pollock allocation bill." So, what appears to be a battle between inshore and offshore is infecting the rest of the state right now and I think there's several hundred gillnetters in Southeast that would say that it's affecting them today, and fishermen all over the state.

Benton: I find that last thing a little bit interesting. I wonder which side put that bill up, but that isn't my question right now and don't expect an answer to that. Don, we, and I think this is a question of Don, but whoever feels like they want to answer it, that'd be fine. At the last Council meeting we received a recommendation from the SSC that basically suggested the Council should adopt a plan amendment to require the collection of price and cost data because in past years and including this year we have suffered from the lack of such data so we could do a full-blown cost-benefit analysis on certain kinds of actions in front of the Council. And so we're entertaining, and we'll later in this meeting look at the issue of such a plan amendment to get that kind of data looking towards the future. If what I'm hearing you fellows say is correct, what you're saying is something that's complementary to that which is, we would like for you to develop a data gathering system and have it in place that starts to collect basic information about the structure and nature of the seafood industry as a whole in Alaska and maybe the Pacific Northwest so that when the Council makes decisions which can be rather far-ranging, you would like for that information to be available to the Council. If I've got this correct, do you have specific recommendations on that, or could you provide specific recommendations to us by the time we get to that agenda item here at the Council, here at this Council meeting.

Giles: At this meeting?

Benton: Yes. First off, do I understand what you're saying correctly? And then secondly, if so, if you have specific recommendations could you provide them to us.

Giles: I guess what I'm saying, and Terry and Bill could add, would be, beyond this decision we think there needs to be a total look at the non-pollock sector throughout Alaska and what ramifications of decisions in the pollock fishery have on the other industries, fishermen, processors, etc. We can certainly provide some input that we would have on how to go about doing that, but I don't know that we could provide what you need for this meeting.

Pereyra: Terry, regarding some of your testimony, I guess what I heard you say, and correct me if I'm wrong, is that you're concerned about the possible impact that a decision that we make may have on your sector of the industry, that we should take it into consideration?

Gardner: That's correct. For example, I know you have some documents considering what the impact of consolidation in the industry might be, but we are also becoming concerned about what would be the effect in our sector of the industry of some substantial consolidation by the accumulation of all these decisions that may come over a several-year period in different forums, what would be the impact on us. Will people in the Bering Sea pollock game have some competitive advantage that other people in the total fishery sector don't have.

Austin: If I can get your concerns straight in my own mind, what I think I hear you saying is that you are in business competition with some of the entities that are in our pollock analysis and if we make those entities more healthy in the pollock aspects of their business, that has a trickle-down or crossover effect on your ability to compete with those same companies, in say the salmon market.

?: That's correct.

2:00 pm Olga Kroppall, Anesia Apakodak, Joshua Andrews, Robert Hanson. Kroppall: ... I work as a recruiter for Arctic Storm. My office is in Dillingham. I recruit in the Southwestern Alaska villages, Bristol Bay area, and hire people to work aboard our factory trawler. I also do the job fair that is held here in Anchorage in December, and last year in response to the poor salmon season we had in Bristol Bay, our partners BBEDC held a job fair in Dillingham and as a result of that we identified perspective employees and hired many employees out of the Bristol Bay area. I'd like you to know that about 20% of the crew on our boats are Alaskans. In 1997, \$1.9 million in wages were paid to Alaskans and nearly \$1 million of that was paid to the residents of Bristol Bay. In the first quarter of 1998, 46 people employed, myself included, made nearly \$358,000. In my area, the villages in Southwest Alaska, there are not a whole lot of jobs. There are teacher's aides, health aides, and maybe VPSOs (?) and various projects that come to town and so there's some part-time work at times and so these jobs are very important to the people in our area. With me are Anesia Apokodak, Joshua Andrews, and Robert Hanson, from different villages in Southwest Alaska and they work aboard our factory trawlers. This is Joshua Andrews.

Andrews: ... from Togiak. I work on the Arctic Storm, for about 2½ years, processor. Also I am a Bristol Bay commercial fisherman. I started working for Arctic Storm because I found declining prices with salmon. It has helped me keep up with school bills and getting an outboard, snow machine, gas, grocery, and stove oil. If the allocation is reduced I have a chance of losing my job or it might not be worth going out for. Besides going out trawling and salmon fishing I do subsistence back home and after I work I always have some money left over to keep some things so I can do my subsistence hunting. Thanks for your time.

Apakadok: ... I'm from Chevak and I work on the Arctic Storm as a galley worker. I was recruited at Dillingham during a job fair BBEDC had sponsored. I started in October of '97 and my last trip ended in February '98. During that time I made over \$11,000 which helped me support my family and pay bills with and if you take away any percentage of the allocation for offshore fisheries I and a lot of other people would have less fishing time and

with less fishing our paychecks would be smaller and it would affect our jobs, a job that I would take the time away from my family to go and work to make the money that I made on the four trips, but I wouldn't leave my family for four months and maybe make only \$5,000 of what I would earn by working onshore. So, if the allocation stays at 65/35, that would be great and since I won't be in Dutch Harbor in June for the final decision, I hope my testimony will help make a difference.

Hanson: . . . I've been working for Arctic Storm for two years. Without this job I'd be unable to live in a rural Alaska and it's been able to not only support myself but my relatives who rely on salmon and herring as an income. So, without this job I would have to leave and not be able to help them. This summer while they're relying on fishing I can subsist and help out the family. Thank you, that's all.

No Council questions.

2:06 pm Larry Cotter, APICDA. I'm here testifying on behalf of APICDA. It's been a year since I've attended a Council meeting and I wish I wasn't here today, but be that as it may, I'm going to testify on the McDowell report. APICDA has two CDQ pollock harvesting partners, Trident Seafoods and the Starbound partnership. Starbound is a factory trawler. APICDA's position on inshore-offshore is neutral; that means we don't support status quo, we don't support any changes in allocation, we don't have a position. We're neutral and I think that's a reflection of our relationship with our partners. I think our perspective of the McDowell report is different from some of the other CDQ groups. We don't believe that royalties are going to be affected at all by any of the allocation changes that you are contemplating. We think that royalties are a function of supply and demand and we don't see that changing. There are of course always ability to pay considerations that enter into the supply and demand matrix, but we don't think that the ability to pay considerations are going to be affected significantly enough through any reallocation that it would adversely affect royalties. In 1997 Trident Seafoods processed 47% of APICDA's pollock CDQ. That catch was taken by harvesting vessels and delivered into Trident. Starbound took the other 53%. Royalties APICDA received in 1997 were approximately \$225 per ton, averaged out during the course of the year. Those royalties to the best of my knowledge and based on calculations that I've done after looking at different reports that DCRA and others have produced would indicate that our royalty is about the mid-range, maybe a little higher. We're probably number three. So there's no doubt that shoreside processing companies either on their own or in partnership with factory trawlers have the ability to pay the going rate for CDQ allocations. I do not agree with comments that suggest that if there's a reallocation of pollock that the royalty for roe is going to decline; I don't agree with the premise that if there's a reallocation that factory trawlers are suddenly going to be unable to afford to compete and buy CDQ pollock. I think that the CDQ groups are intelligent enough in the event that did occur, they're intelligent enough not to wait until the inshore fishery is completed after the peak of the roe season; I think that they'll lease their CDQ pollock to factory trawlers who can catch it at the peak of the roe season. So I don't see any changes happening there. Last year APICDA purchased 25% of the Prowler and 25% of the Ocean Prowler. Actually APICDA's wholly-owned profit-making subsidiary, APICDA Joint Ventures, did that, AJV. I then put on my APICDA hat and sat down and negotiated with the owners of the Prowler and the Ocean Prowler, which again included 25% ownership by AJV. We negotiated a royalty agreement whereby the Prowler and the Ocean Prowler would harvest our Pacific cod. It was impossible for me not to be cognizant of the interrelationship between the profit-making side of our Prowler-Ocean Prowler investment and the royalty side of our APICDA needs. It was impossible for me not to recognize that at different times the value of the product that is produced is going to be higher or lower based upon market considerations, that there is only so much of the pie available to provide for the needs of the crew and the company and the royalty and that at different times we, in APICDA, may have to adjust our royalty in order to assist on the profit-making side and at other times the profit-making side may have enough latitude to allow us to increase the royalty. That's a function of business. It's a function of our investment in the Prowler and the Ocean Prowler and we knew that going in. And I think some of the other CDQ groups are finding themselves in the same position. We do, Mr. Chairman, also own 25% of the Golden Dawn which is a 148 foot trawler operating out of Akutan. That vessel fishes our CDQ. It pays a royalty to APICDA when it's fishing our

CDQ. When it fishes CDQ the fishermen on board that vessel get paid a little bit less than they would if they were fishing open access because they participate in paying for the royalty. The same is true on the Starbound, for the crew of the Starbound. When they're fishing CDQ their earnings are reduced a bit because they're sharing in paying for the cost of the royalty. I want to comment that APICDA, our folks don't spend a lot of time working on factory trawlers. We understand how important that is for the other CDQ groups and don't want to say anything at all to diminish that importance. It is very important. Our folks have a tendency to want to work in their communities. We're geographically fortunate enough that we've been able to develop infrastructure and businesses in our communities so that people have the luxury to stay at home. This year we expect that we may have about 125 folks working directly for APICDA subsidiaries in our communities. Next year we expect that to be higher, but all the infrastructure and all of the business investments that is producing those 125 jobs came from pollock royalties. So when you look at employment in the pollock industry and the impacts of inshore-offshore, you need to recognize that pollock royalties generate activity not only on factory trawlers and not only in shore plants working on pollock but also in other industries. I have one more comment, Mr. Chairman, which is a little off the subject, and that is John Roos made some comments to the AP regarding sea lions and the marine mammal research consortium. I was distressed to hear that contributions from the public to that consortium have declined from well over \$200,000 a year several years ago to just \$100,000 this year. APICDA has contributed \$5,000 a year to that consortium for the last four years. I think that it's incumbent upon every organization and every company that's involved in the pollock industry to at least match the \$5,000 contribution from APICDA. We have to do the research; this is a major problem and it needs to be addressed. Thank you.

Council questions:

Pereyra: . . . You made a statement there that if one of the allocative decisions we made negatively impacted the factory trawlers that they would come to the table and buy CDQ during the peak of the 'A' season. Why would they want to do that? What's the economic incentive for purchasing CDQ pollock at the peak of the roe season when in fact they can fish it for nothing out of the remaining offshore quota.

Cotter: Well, if that were the case, I wouldn't buy it either. I'm assuming that the comment made earlier today, in the hypothetical is that with an allocation to the inshore, an increased allocation inshore, then that is going to reduce the offshore season and it's going to lengthen the inshore season, lengthen the inshore season past the peak of the roe season, with the comment made that then means that the CDQ groups are going to make a lot less money because they'll be fishing on spawned out pollock. And the reasoning was suggested that that is going to happen because the factory trawl fleet will not be able to afford to participate in a CDQ roe fishery and I think that's a bogus statement. I think that once they're completed with their open access factory trawl season, yeah, they'd be interested in going in and fishing CDQ pollock roe, particularly if it's at the peak of the season. They are now.

Pereyra: Of your two CDQ partners, which one harvested the bulk of your CDQ during the 'A' season this year?

Cotter: I'm glad you asked. This year the Starbound, and I didn't mean to avoid saying that, because I did say it in the AP. The Starbound took 100% of our 'A' season pollock this year. That's the very first time that has happened, and the reason it happened this year is because of the very poor market for pollock roe, the length of time that the 'A' season was expected to last. . . [Change to Tape 21 - comments lost in changeover]. . . you would have the flexibility to be able to take advantage of opportunities and changes in markets.

End of questions.

2:17 pm Paul Peyton, BBEDC. . . I'm here representing the Bristol Bay economic development corporation and I'm going to limit my comments to the McDowell report. We put a tremendous amount of work into this. I realize that the degree of time and energy invested in answering the questions varied quite a bit

between groups. We put a lot of work into it as did our partner and we're rather frustrated that very little of that work made to the surface of the report. I think Scott Miller said it the best before the SSC, that they did not have the experience to discern the effects on partners of profitability and therefore the effect of those profits on royalties and therefore the program and they spent a lot of time thrashing around trying to figure out how all this was going to fit together. There are also clearly differences between groups and their experience in how their relationships work and I think that they're are correct in stating that there is quite a bit of variability there. But, at the same time, many times it felt like they were substituting their judgement for our own and we would have much preferred to have seen our opinions make it all the way through so the reader could judge for themself. For that reason, we support the AP recommendations, that those, at least the author's conclusions, be clearly spelled out, why they came to them and how they came to them, what their justification is. However, we're probably most frustrated with the treatment of employment. A tremendous amount of effort was invested in trying to determine what the actual employment numbers were and they basically corroborated the findings of the 1997 DCRA report, which is that within the CDQ community that the pollock employment is. . . [unintelligible. . . only offshore and that's true of every single CDQ group. It doesn't matter which one you look at. And the simple reason is that the pay is better. You don't have to be a rocket scientist to figure this out. The bottom line is that there is probably going to be a significant impact if there is a change in season length, either positively or negatively. And yet there is absolutely nothing in the report that even begins to address that. We find that this sadly deficient and again concur with the AP recommendation that they should be instructed to go back and try again. Our sort of back of the envelope version of it is that if you cut season length you're going to pay; if you lengthen season length, you're going to increase pay and to imply as they did that CDQ folks somehow are going to be able to dodge that bullet better than other employees in the offshore sector is a bit presumptuous. We don't know how our folks are going to be able to do that. I think everybody's pretty much in the same basket there. And I guess one other statement I would make, just to clarify some things. It didn't seem like there was much emphasis in that report in terms of differentiating between folks on the icebound coast from Bristol Bay north to folks in the Aleutians and Pribilofs. These areas have different approaches to things and the folks on the icebound coast are much more dependent on offshore employment because they do not have the local opportunities that folks with deep water ports and access to resources more year 'round do, and that's pretty clear. Anybody that works with a CDQ program and tracks it over the years can clearly see the difference. And all the people that invested in offshore tend to be up north. We have a different relationship with our partner. I think one of the other things they did point out is that partner relationships are really critical. We spent a long time picking a partner that we felt would be a good fit. To imply that a large scale shift in allocation would somehow not impact royalties skips over the fact that you have to lose your partner and gain another one in the interim and there are going to be significant employment impacts to that. There's going to be significant opportunity costs in trying to find a new partner. Having gone through it, we essentially lost a year at the tail-end of our last relationship and took a year to get up to speed with this one, and there's a huge opportunity cost associated with that that shouldn't be taken lightly. And they did note that, but it never really did make it into the finding about what would happen if there was a large scale allocation shift. The focus seemed to be entirely on royalty value. That's all I have.

Council questions:

Pennoyer: Paul, you made a point of saying you supported the AP recommendation regarding the McDowell report. The SSC had recommendations, too, and I've been trying to figure out what the difference is between them. Have you read the SSC recommendation, and . . .

Peyton: I haven't seen it; I heard a part of it. Could you read it to me?

Pennoyer: O.K., 'The SSC requests that prior to release of this document for public review the authors prepare an appendix that reduces the survey responses into bullets that reflect the diversity of opinions offered by respondents subject to maintaining confidentiality.' So, I don't know if what they're requesting is sort of just

a listing whereas the AP request is for more analysis. Could you characterize what you think the AP was requesting?

Peyton: Well, the SSC didn't specifically address the employment question, the AP did. Another piece of the AP motion is that employment in the CDQ community is a critical piece in analyzing this allocation decision and the McDowell report simply says nothing about it.

Pennoyer: I guess that's what I don't understand, because the AP wanted bullets that reflected the diversity of opinions offered by respondents, not just what's was in the report. I guess that would cover employment if it was offered but not in the report.

Peyton: Well, part of the problem is we didn't have access to all the other data from the other groups. The only people that did were the authors. We could say what we think's going to happen to us, but there was quite a bit of effort expended to try to gather that data and yet there is no analysis of it. So, I think that's one reason the AP went a little further.

End of questions.

2:24 pm Sue Aspelund, Naknek. . . I appreciate this opportunity to address you today. My name is Sue Aspelund, I'm a 20-year resident of Naknek, which is a CDQ community in Bristol Bay and have been a commercial salmon fisherman for 19 years. I'm here today representing myself and my two children and I would also like to call your attention to Resolution 97-23 passed by the Bristol Bay Borough Assembly on September 22, 1997. I come before you today to request that you maintain the status quo for the inshore-offshore pollock allocation. Bristol Bay residents have historically relied almost solely on the salmon industry to supply an economic base for our local government, schools and the business of the region. As you are well aware, in Bristol Bay we can no longer rely exclusively on the salmon industry to provide for our livelihood and to support our needs. The condition of the salmon industry today is one reason why I support maintenance of the status quo in the inshore-offshore allocation. I've viewed diversification of our salmon markets as absolutely critical if we're to turn our industry around. Decreasing our dependency upon Japanese markets must occur if we're to derive greater income from our salmon resource. Some of the offshore factory trawl fleet is already assisting us in that effort. They are developing alternative domestic markets and value-added products for salmon and are actively working in partnerships with fishermen to do so. In this year of salmon run failures coupled with depressed market conditions these efforts are especially important to us. As a resident of a CDQ community I'm aware of the benefits that the offshore fleet provides to our region. The decisions you make on this allocation affect the profitability of the factory trawler which our CDQ group has invested in. And anything that affects this profitability obviously affects the benefits of the CDQ program that we enjoy. Due to the depression in the salmon and herring markets now our residents must often seek additional employment in order to support families once taken care by the earnings from our fisheries. Employment of our CDQ residents on factory trawlers has provided some of those jobs and resulted in an economic gain to our region of over \$2 million. In our community, the internship program supported by our CDQ group has provided the opportunity for our young adults to gain exposure and experience in a work field both inside and outside our community that has previously been unavailable. Since 1992 our CDQ program has awarded 171 academic scholarships in the amount of \$258,000. From 1993 to '97, more than 900 residents have been served by the adult basic education GED program which our CDQ program assists in funding through the University of Alaska. And, 74 of these participants have been awarded GEDs through their participation in the program and are now eligible for advanced training. During the same period hundreds of regional residents have benefited from a variety of CDQ-funded vocational training programs. As the community education coordinator for our school district I've personally been involved in partnerships with our CDQ group to provide course work in marine survival drill instruction for many fishermen in the Bay. Other programs that have been offered as a result of our CDQ program in our villages and available regionally are welding, fiberglass repair, small engine maintenance and repair, computer applications for small

business, and more. This instruction assists us in our commercial operations and in our subsistence pursuits. Since 1994 our CDQ program has provided an especially valuable service to our region, the Bristol Bay permit brokerage. This has assisted hundreds of resident commercial fishermen to retain and/or access limited entry permits and has provided much needed tax counseling and intervention services. And, this has been really valuable to us in our region in light of the recent downturn in the salmon industry upon which we're so reliant. Obviously, any adjustments to the inshore-offshore allocation will affect our communities since the programs provided for by our relationships to the offshore fleet are directly related to their profitability. The offshore fleet has provided our residents with stable employment at equitable wages in drug-free work environments close to our home communities as well as the infrastructure to develop our fisheries further. The offshore fleet has been a sound economic partner in our region. And in closing I would like to call your attention to Resolution 97-23 from the Bristol Bay Borough Assembly in support of CDQs and an extension of the current Bering Sea/Aleutian Islands and Gulf of Alaska inshore-offshore allocation. This resolution passed our borough assembly unanimously on behalf of the residents of our borough. Thank you very much.

No questions.

[break]

2:49 pm Joe Plesha, Trident. . . For the record, my name is Joe Plesha and Jacob Stepetin is with me from Akutan who didn't get a chance to sign up initially and with the Council's approval, I'd ask that he be allowed to testify with me. And, I'll be very brief. The issue before the Council right now is whether to send this document out for public review. As the Council is aware, inshore-offshore sunsets after this calendar year, so assuming that . . . if we're going to have any sort of allocation in place for 1999, there has to be a final decision on the allocation at the June meeting and therefore I urge that the Council vote to send this document out for public review with a full range of alternatives and the suggestions that have been made by the AP and the SSC with regard to improvements of the document. The only short comment I would make is I think there should be included within the analysis the issue of excessive shares. And, again, I might be beating a dead horse as has already been beaten, but my feeling is that if National Standard 4, Section C applies only to limited access systems, certainly, we have a limited access system in place with regard to the offshore sector because of the vessel moratorium followed by the license limitation program and that therefore, even under the NOAA General Counsel's legal interpretation of the limitations of that section, it would apply in this case because of the special circumstances of the moratorium and the license program. With that, I'd like to turn it over to Jacob.

Stepetin: . . . I'm the mayor of the city council of Akutan. Akutan incorporated as a second-class city in 1979 because of the king crab boom and due to the increase of floater processors in our harbor. At that time we levied a raw fish tax which became the basis of our economic stability. Revenue from these fisheries was stable until the crash of king crab season. With the crash came uncertainty to the survival of our community. The thirteen floaters that were in our harbor did not return, only leaving us with one shorebased processor. Our community still depends on the fisheries resource for its economic stability. According to the Magnuson-Stevens Act of 1976, National Standard 8, quote, 'Take into account the importance of the fisheries resources to fishing communities in order to provide for a sustained participation of such communities and minimize adverse economic impacts on such communities.' Without the presence of a shorebased processor Akutan would be an economic wasteland. Local jobs and services would decline because of loss of the tax base, fishing jobs would disappear because most of that work is on vessels that deliver at the shorebased plant. Because Akutan does not have a boat harbor we fish from small skiffs. Without a local plant to take our deliveries, the fisheries would disappear. Almost everyone in the community would be unemployed and have to look to the State and Federal governments for assistance. Akutan is not the only community that depends on the fisheries resource; there are many more. I'd like to reiterate the fact that without the increase of pollock allocation in the shorebased sector our communities will suffer. In closing, I hope the Council will consider an increase in the BSAI pollock allocation for the shorebased processors. Thank you.

No questions.

2:53 pm Doug Forsyth, Premier Pacific Seafoods. . . I'm speaking today on behalf of the three true motherships. First thing I wanted to address here was the sector definitions, the issue of limited access that came up last week when the document went out. The motherships never sought to exclude anyone from that sector who had been a pure processor in the past. Floaters, salmon processors, new builds, were all O.K. What we have sought to exclude was the moratorium protected factory trawlers from rolling into the sector if they deemed it more advantageous to do so. There's two reasons for that. One, we can be one of them. They're a moratorium protected class, we're not. Several years ago when the decision was made whether one wanted to be a factory trawler or not, that was a made decision. The Ocean Phoenix could have qualified, so could the Golden Alaska, yet we chose to remain as true motherships. Factory trawlers could have made that same choice at that point in time. Second reason, and perhaps more compelling, is the fleet strategy type of fishing that could be employed. Let's say you had a fleet of vessels and there was two categories selected at the start of the season, you decided to flood one particular sector, you'd nominate four or five vessels to roll into the mothership sector, bankrupt the current occupants of that sector, then in the following season pull some vessels out and redistribute them out throughout the fishery. Don't think this won't happen. American Seafoods this past 'A' season employed that very same strategy with regards to the Aleutians quota. They sent the Northern Hawk out to the Aleutians on January 26 when the offshore season opened, took all of that quota, supported the operation off the backs of the rest of the fleet operating in the Bering Sea. So, fleet fishing strategies have been employed in the past and if free exchange between sectors on a short timeframe was allowed, I guarantee it would occur in the future. There's some other reasons for establishing true motherships as a sector. One of those is, as we move towards this nirvana of CRP, the issue of data collection I think needs to be addressed. I think the document that's been put together is as good as could be given the confusion of the data base. Sometimes motherships are broken out accurately, sometimes not accurately, and vessels are miscategorized, especially if you go back in time. If you did have the three sectors clearly identified I think it would make data collection ongoing into the future simpler and easier to understand. Probably more compelling, though, is National Standard number 10 which I had mentioned at the September Council meeting. National Standard number 10 speaks to the issue of safety. It specifically states, quote, 'An FMP should try to avoid creating situations that result in vessels going out farther, fishing longer, or fishing in weather worse than they generally would have in the absence of management measures.', end of quote. The mothership fleet of 19 catcher vessels are all under 125 feet, yet they are competing against the largest vessels in the industry, same weather, same fishing conditions, same grounds, same race for fish. I think there are safer ways to organize the fishery than putting these smallest vessels into competition with the largest vessels. Last point on the sector definition is, remember although we're talking about three motherships currently in this sector there have been other vessels in the past that have participated as motherships and, more importantly, we're talking about 19 catcher vessels. Those are the people who you're talking about. They deliver to motherships. The motherships don't catch any fish; it's the catcher vessels that catch the fish and deliver them to a particular processing platform. Second major topic I'd like to touch on is the issue of allocation and the question of what is status quo. I think as you look back in that document when you look at the years '91, '94, I think you have to discount them as you look towards the offshore sector. Emerald Seafoods had three very large vessels, the Saga Sea, Heather Sea, Claymore Sea. When they departed the offshore sector it dramatically changed the make-up of that sector. Everyone's share increased. If you look in 1996 the motherships were 10%. . . these are all figures out of the document. . . 10%, '97 was 11.45%, and this last 'A' season was 11.7. The average of those three is 11.2, my point being is that the offshore sector has changed fairly dramatically in the capacity in that sector and realistically you have to look at the last two or three years to get a clear picture. It's one of the cases where I think going all the way back to the beginning distorts the picture. Moving on to some sensitivity analysis, the document tends to state that 10% is the status quo for motherships. On the 1996 actual column, those are numbers out of the document as well, you see that the quota that the three processors took was 121,000 tons yet what is stated as status quo is 102,000. Well, that's 90% of the actual for '96, so I would argue that status quo is not 10% but is more reflective of an 11% number. . . [Lauber: you'll have to wind it up, Doug]. . . In the letter I sent out there's a number of data points regarding utilization, ownership, employment, catcher boat

CDQ and taxes, I urge you take the time to read those and if there's any particular questions, I'd be happy to address them.

Council questions:

Pereyra: Doug, with regard to taxes, I know the Ocean Phoenix goes to Japan with product and I was wondering, when the Ocean Phoenix offloads at sea, if you do a mini-offload at sea, does that product go through Dutch Harbor or does it go to Japan?

Forsyth: All those shipments transit through Alaskan state waters.

Pereyra: So, you pay taxes on those?

Forsyth: That's correct.

Pereyra: Then, you paid a fee I believe this year of some sort, you made a contribution I believe of \$125,000, to offset the taxes. Does that represent your full tax avoidance for the year or is that just partial?

Forsyth: That's equal to the 'A' season operation.

Kyle: Doug, I assume that you would like to see the document go out.

Forsyth: I've been anticipating this question and I have to admit I'm not a fishcrat, and so when you say, send the document out, I'm not quite sure what that means.

Kyle: Well, I'll get right to the point. A lot. . . what I've seen, like in your draft, your overhead, you want to emphasize the point that your historical average should really just be the last three years or whatever, and what's in the document of course is anything from five to fifteen, and shoreside 25 to 45, and offshore, 65 to 55 or 75, and, I just wanted to make sure that if we send this out the way it is, there's a whole variety of ways it could come out in the end, come out status quo, you could be left with onshore, you could be left with offshore, or you could have your own allocation. . . I just wanted. . . you support it going out like that knowing that there's this range of things that we'll be looking at in June if we send it out in its current state.

Forsyth: Yes, I would.

Kyle: I mean, there's. . . who knows what we'll wind up doing, but. . .

Austin: I asked this question previously of Mr. Salsbury. If the Council was to decide to allocate into a third sector, the motherships, you made reference to 19 catcher boats. What would stop 112 catcher boats, or 90 catcher boats from being part of that? I don't understand how what we've got in front of us is going to limit, unless you intend to limit, the numbers of catcher boats that would deliver to the mothership.

Forsyth: Well, I don't think there's a limit other than the economic realities of what it costs to run a vessel versus the opportunity. If you look at any fish-buying operation, whether it's a shoreplant, a floater, or a mothership, the fleet size is a balance between factory capacity, catching capacity, and the economics of both sides of that equation needed to balance out and make it work. From the processor side, we might love to have 150 catcher boats delivering, but none of those catcher boats would be able to survive, so over time you kind of optimize to a particular level. On the Ocean Phoenix, our fleet has ranged between seven, eight, and I think at one time we might have had nine vessels. Last couple of years we've used eight, and it appears to be pretty balanced given the CPUEs and what not.

Austin: Who owns the catcher vessels that deliver to you?

Forsyth: They're all independently owned. In fact, in the mothership sector, 89% of those catcher boats are U.S.-owned, where the fleet average as a whole is 81%.

O'Shea: Mr. Forsythe, you mentioned National Standard 10. In your opinion, does the document in its present condition adequately address the safety issues involved in this decision?

Forsyth: I haven't read every single page in the document. I can't recall in reading it, though, where I've read that issue being brought up in it, but I could be mistaken there.

O'Shea: It is in the document, so I guess I . . .

Forsyth: Then I would say I'm remiss and I couldn't comment if it addresses it adequately or not.

Samuelson: Doug, in your letter to us, under taxes, your first sentence there, in '97, the three true motherships paid a total of \$1.3 million in state taxes. However, you allude to other fisheries and I take it that's salmon and other fisheries that the three motherships are in?

Forsyth: Yes, in '97, if we just took the fisheries landing tax, I believe is the operable one here, the three motherships would have paid in total about \$600,000 in taxes, yet the total amount of state taxes paid was over \$1.2 million, so we're adding value, if you will, to the tax base by operating in other fisheries in state waters [Change to Tape 22 - rest lost in tape changeover]

3:07 pm Jan Jacobs, American Seafoods. . . Director of Government Affairs for American Seafoods Company. Others have spoken today to specific issues of the inshore-offshore analysis, so I'd like to focus on the contributions that we've made to the pollock fishery, to coastal communities dependent on the fishery, and to the State of Alaska as a whole. It seems there's been a lot of mudslinging about our company lately and I'd just like to provide another side of the story that you may or may not have heard. Last couple of years our company's grown quite a bit, but keep in mind that as we've grown, it wasn't that long ago that we were a fairly small company, we've grown mostly from the end of '96 til early '97. But, like I said, as we have grown so have our contributions. Some benefits to the fishery, as you know over 90% of our pollock operations are conducted in the midwater trawling mode, that has resulted in one of the cleanest fisheries in the world, 2% bycatch. Discards of pollock and cod are now zero. We aggressively promoted that regulation along with the rest of the offshore fleet. Our company spends about \$400,000 a year for observer coverage on our vessels. That's 100% in all cases and 200% a good part of the season as well. Of our production in the Bering Sea, about 30% of that goes into products for the domestic market in the U.S., pollock fillets. The highest value product there is deep-skin fillets. Those products, value is added again in the United States to those products and they're consumed in the United States. We currently have a vessel participating in the State inshore cod fishery off Chignik. It's underway as we speak; before this fishery is completed we will have purchased about 3 million pounds of cod, worth about \$600,000. We're working with 10 to 15 local Chignik pot and jig fishermen that really have very few alternatives and I've heard that they are very pleased with the way this fishery has gone and if they weren't out fishing I wouldn't be surprised they'd be here today. Some benefits to Alaska coastal communities--we spend about \$35 million a year in goods and services in Alaska, most of that's in Dutch Harbor. We've developed a good relationship with a shipyard in Ketchikan. We were the first company to bring a vessel in there from this industry for vessel repairs. In '97 we had 3 vessels in Ketchikan. We were quite pleased with the work there. And, we're on our way to becoming the largest single customer of the Ketchikan Shipyard and we hope to be significant in their ability to be profitable. We've been CDQ partners with Central Bering Sea Fishermen's Association since 1992; we provide about a million dollars a year in royalties, \$50,000 dollars a year in educational scholarships, and unlimited employment opportunities. A year ago we formed an Alaskan community advisory board. We

provided \$50,000 a year for that board to donate to worthy organizations around the state. We've got four offices in Alaska. We've had an office in Dutch Harbor since 1989, an office in Naknek and Dillingham and last year we opened a recruiting office in Anchorage. That office is dedicated solely to recruiting Alaskans to work on our vessels. We've also made this year half a dozen port calls in Adak, offloading seafood products there, purchasing fuel and employing local labor. Some benefits to the State of Alaska as a whole, we pay about \$2 million a year in landing taxes. Employment in 1997, we hired over 150 Alaskans on our vessels. This year so far we've hired over 200 Alaskans; by the end of this year we will have reached our goal of 500 Alaskans. We're basically offering employment in any open positions to Alaskans. We provide a drug and alcohol-free work environment as well and it's strictly enforced. We purchased \$3 million worth of salmon in Bristol Bay; that operation's been in existence four years, we'll be again there this year. That value's added in Bristol Bay, Alaska, not in Japan. Last year we committed to a \$600,000 contribution to the Alaska Sea Life Center, made our first payment last year and that of course carries over the course of three years. Just to summarize, I'd like to say that we're committed to these programs and to a lasting partnership with Alaska. Of course, our ability to maintain these activities and to pursue new activities depends on a stable, profitable pollock fishery. There's a fine balance now, I don't think it's going to take a whole lot to upset that balance. You know, we've seen 17 bankruptcies since inshore-offshore first was implemented.

Council questions:

Pereyra: Jan, the issue before us is whether we should send this document out in its present form. Do you feel it properly characterizes the problem that we have before us and the alternatives that we have to look at.

Jacobs: Well, as I understand the problem has just been that we ought to study the industry and see what's changed over the last several years. I'm not sure I've seen another compelling problem yet. I think I'd like to see the range of allocations narrowed; I'd like to see the onshore employment data audited because I understand that has not been audited. There isn't a whole lot of . . . market implications hasn't really been studied to any degree. That could have serious implications on this industry and related industries, and I don't know; I think it's hard to come up with the best decision without cost data. It's like having one side of the ledger and not the other.

Samuelson: Jan, referring to the sunset issues. Do you have an opinion on them?

Jacobs: As far as how long the decision should last?

Samuelson: No sunset date, a 3-year sunset date, . . .

Jacobs: Well, it'd sure be nice to not go through this battle every couple years. I'm not sure, . . .if there's a problem where there's a reason to revisit it, but I think the original schedule of this Council was to complete the comprehensive rationalization process. It seems that's what we should be doing.

3:16 pm Dennis Andrew; Joyce Johnson. Andrew: . . .my name is Dennis Andrew. I'm a commercial salmon and herring fisherman from Nustuliak(sp?). Nustuliak is located in Bristol Bay, 250 miles southwest of Anchorage. I was born and raised in Nustuliak and lived most of my life there. I'd like to go on record on opposing any increase of Bering Sea pollock quota to the offshore processor. I support continuing the status quo, 65/35, plus because of status quo, has been good for Alaskan villages like Nustuliak. Under the existing pollock allocations both sectors can continue operating in Alaska. . . [could not understand]. . . I do not believe there is any compelling reason for Alaskans to change the quota allocations. Shifting quotas to a few onshore processors will hurt the offshore pollock processor sector. . [couldn't understand]. . . threaten the existence of offshore processing companies, and as a result many of us living in Western Alaska by taking away our jobs and opportunities to better our life. Unlike at Dutch Harbor, a good job is very hard to come by in Nustuliak and other Western Alaska Villages. Companies like American Seafoods has been good to Western Alaskans and have

hired significant number of Alaskans to work onboard offshore processor boats. Offshore jobs provide a good income; it is important for the Council and Alaskans to support the offshore pollock processors. A large part of the offshore jobs has been brought about by the CDQ programs, however I've seen American Seafoods and other offshore companies participate in job fair held in Dillingham. We don't question the company has made . . . [can't understand] . . . to hire Western Alaskans. I am also concerned that if pollock quota is shifted away from the offshore sector that not only will Bristol Bay residents be losing jobs with the offshore pollock fleet, but Chignik cod fishermen and Bristol Bay salmon fishermen who fish for offshore processing companies will lose their markets. I've seen American Seafood buy salmon from Bristol Bay fishermen. I have relatives who fish salmon for the company. I've also learned that American Seafoods is buying cod from Chignik area fishermen. In times when salmon and herring prices from shoreplants were down to fishermen these new alternative markets are important to the fishery and to the fishermen working in Bristol Bay and Chignik area. In closure, any shift in pollock quota away from the offshore fleet will hurt us in Western Alaska. Shifting quota to the onshore processors [couldn't understand] markets for fishermen. Please maintain the status quo in Bering Sea pollock allocations so we can continue to benefit from the pollock fishery along with other Alaskans.

Johnson: . . . I'm a Bristol Bay permit holder from Dillingham, born and raised in Dillingham, and I also support the allocation the way it stands now. If it's not broke, don't fix it. Previous to last year I was able to support my family, I have three kids and I'm single, on my fishing income. Well, with the market the way it is I've come to fast realize how important it is to have alternative markets and independent markets. I would rather have the choice to sell my fish in a competitive market. And, if things change we might not have that choice and the choice would be taken away from us. Then what do we do? I've seen also first-hand the jobs alternative markets provide. I am now employed by American Seafoods in the office, the hiring office, taking applications from all over Alaska. And, with the bad season like we had last year, there are many, many people in all the different varieties of fishing that have come asking for jobs. Deckhands, processors, captains, the whole nine yards. We are continuing to offer these jobs and I'd like to see it stay that way. So I do support the allocation the way it stands. If we have a choice it would be nice if we could choose between a good job rather than go on welfare because of a poor fishing season. So, that's pretty much all I have to say. If it isn't broke, please don't fix it; leave things the way they are. Thank you.

No Council questions.

3:22 pm Ed Glotfelty, Billy Charles, Yukon Delta Fisheries Development Assn. . . . My name's Ed Glotfelty; I work for Yukon Delta Fisheries Development Assn., and Billy Charles is the President of the association. We're one of the six CDQ groups that exist. I'll be very short with my testimony. Yukon Delta's CDQ pollock partner since the inception in 1992 has been Golden Alaska Seafoods and Golden Alaska is one of the 3 mothership operations that operate in the pollock fishery. During the first quarter of 1998 Yukon Delta Fisheries has had 84 people employed in the Bering Sea fishery. Seventy-eight of those were in the pollock fishery, 62 of that group were offshore; 45 of that 62 were employed in mothership operations, with the Golden Alaska, the Excellence, and the Ocean Phoenix. Seventeen were offshore, with catcher processors, and 17 were in the onshore plants of Westward, UniSea and Trident. We endorse the status quo, the 65/35 split, but if in your wisdom you decide to create a second category for motherships, we would endorse an allocation of in the 15% range for the motherships.

Council questions:

Kyle: Ed, where would you like it to come from, the 15%, if you endorse the status quo?

Glotfelty: Well, I think a 35/50/15 split would be good.

Kyle: 35/50/15? O.K., that's pretty . . . blunt.

Pereyra: Since you want to increase the quota by 50% to the mothership sector, I have to ask this question and that is do you know who the owner of your mothership is?

Glotfelty: Yeah, I sure do. Nichiro. But, they've treated us very well and I think we've had. . .I'll just say we're very satisfied with Nichiro, but the other two motherships that we're working with are American-owned, and they provide employment opportunities to quite a number of our people.

End of questions.

3:25 pm Rick Upton, Steve Wittman, Mike Prince: Westward Seafoods - Dutch Harbor. Upton: . . .I am employed by Westward Seafoods in Unalaska-Dutch Harbor. I've worked there for three years as the environmental compliance technician. I'm also the recreation club officer and a volunteer radio disc jockey and board member of Unalaska Community Broadcasting. I'm here today to touch on three issues that I believe represent a good argument for an increase of pollock to the onshore processors. Number one, shoreside plants and their employees are involved in the community and represent a large tax base for the community and the state. Number two, shoreside plants are involved in protecting the marine environment, and Number three, shoreside plants represent a wiser use of the pollock resource. Concerning community involvement, I'm involved as a recreation club officer in setting up recreation for Westward employees and this includes bowling alley, the City of Unalaska PCR, which is a gymnasium, the city school swimming pool and we also provide transportation for our employees when they have time to go and enjoy some off time at these facilities in town as well as transport them to town for shopping and things within the community. Number two, concerning my job, my work as an environmental compliance technician involves sampling of effluence, some of the analysis, data collection throughout the year, and reporting of results to federal and state agencies. I think this is important because the water bodies around Captain's Bay and around Unalaska Island are. . .we're under fairly strict regulations from the ADC and the EPA to monitor organic loads during processing, unlike factory trawlers who are allowed to discard and discharge pretty much anything they want out into the Bering Sea. This sampling effort is a fairly large capital expense. It goes on throughout the year. We sample in-house and we also sample out in the Bay, the receiving water body and are required to report that. The third issue is concerning use of the pollock resource. According to NMFS figures from last year, most factory trawlers report a 17% recovery of pollock in surimi. Our plant ranges between 23 and 25% recovery of the pollock and in addition to that we have a 24-hour a day fish meal plant that recovers another 10 to 12% and also produce fish oil from the discards. We basically, it's a total utilization of the resource at our plant. The way I see it, our city of Unalaska, the processing plants, the community, all the supporting business, the fishermen and women, are all interrelated and dependant on the resource and catcher processors, I don't have any actual numbers or anything to back this up, but I've heard that they can travel; obviously, they're boats. They go to Argentina, they go to Russia at times, make deals to fish their resources, whereas we're in Unalaska to stay and we feel we need to have our fish. So, in conclusion, I support the Council document to be part of public review and a decision to be made in June after that review. Thank you.

Prince: . . .I'm the supervising engineer for Westward Seafoods in Dutch Harbor-Unalaska. I live there year-round with my wife, Katie. She works for the city of Unalaska. We're there to stay; we would like to think so. You guys have been hearing lots of argument on both sides all day; you're probably pretty burned out on it, I'm sure, getting pretty tired, but my wife and I and numerous others that work for Westward Seafoods are very deeply involved with the community as far as things we do for the community, go to meetings, go to this, go to that. We'd actually like to call it our home and we put money back into the community. We buy things. . .as well as Westward, they create a tax base for Unalaska-Dutch Harbor. In addition to the 2% raw fish tax that the shoreside processors collect and the property taxes they pay represent a major source of funding for the City of Unalaska. The offshore sector, who will take their factory trawlers and move on once the fish are gone, we the onshore people will still be there after they've left. In closing, I urge you to be very careful in your decision-making. After all, your decision affects all of us that live there and at other shoreplant operations. I highly

support the Council document going to the public for review. After all, that is who it's really going to affect. Thank you.

Wittman: . . . I'm an administrative apprentice at Westward Seafoods. Originally from Mekoryuk, Alaska, which is a part of the Coastal Villages Region Fund. I now consider myself a resident of Dutch Harbor. As a resident of the CVRF region and a recent graduate from the University of Alaska Fairbanks, I as did many others found it difficult to adapt to the environment of Dutch Harbor. I've been in Dutch Harbor for about a year now and during that short time I notice many members of the CVRF region found themselves in a tough situation because of the environment and usually they ended up leaving for home. Being unsure and shy in the beginning, I too was in that situation and what helped me to overcome this type of situation was the fact that I began to have regular and consistent access to talking to all the managers in the plant. I would talk to the managers about the progress of a particular season and how employees are doing two to three times a week. In the off season I was able to talk to the managers every day. Being able to have consistent access to speak to the managers is important to me because when I learned that the work I do is not only important to them but also the board of Westward Seafoods, it really inspired me and encouraged me to concentrate and do a better job. I was not like this when I came to Westward Seafoods. As a matter of fact, I had several problems. I never wanted to talk to anyone about the problems I had at work or home. So having this type of access to the managers of Westward Seafoods was a turning point in my work life. Not only did this help me, but I began to have daily visits with our foreman on the production line and the reason I did this was because I wanted to know what problems employees were having so I could try and help them succeed. I told myself that if I was able to adjust to this type of an environment I can help others to feel more comfortable while employed with Westward Seafoods in Dutch Harbor. We all know that everyone has problems of some sort, and these problems may result from mistakes. Making a mistake is not the end of the world or your job as I used to think. Rather, by making a mistake you learn and you learn how to prevent others from making that same mistake. In conclusion I would like to say that I like my apprenticeship program with Westward Seafoods because, one, it has given me the opportunity to learn how seafood companies operate; two, it has made me realize how important it is to succeed in life, and the importance of making the right decisions. Three, it has enabled me to learn the ways of successful management by interacting with managers and attending seminars. Four, I like the work I do and knowing that the work I do is important to the managers, the board and the president of Westward Seafoods. And, five, I like my apprenticeship program with Westward Seafoods because I am doing work that I love to do.

Council questions:

Austin: I get a sense from your testimony. . . well, let me verify [Change to Tape 23 --his question and any answer and other questions and answers, if any, were lost in the changeover]

End of questions.

3:39 pm John Gruver (F/V Seawolf), Brad Conally (F/V Westward 1), Bill Lock (F/V Viking), Charles Bronson (F/V Great Pacific). Gruver: Our four boats deliver pollock to shoreplants in Dutch Harbor-Unalaska. Myself and the Seawolf began delivering shoreside in 1987, Bill and the Viking in 1988, Brad with the Westward 1 in 1989, and Charles has been delivering shoreside since 1988. In addition, the four of us and many of our crew members have participated in the pollock joint venture fisheries since the early '80s. Between ourselves and our crews, a group of 23 fishermen, we represent a combined total of over 465 years of fishing experience. We clearly have a long-term interest and have made a long-term commitment to this industry. Fishing is clearly our life's work. We would like to add that we're not part of the Groundswell movement and actually had not heard of the Groundswell movement until this week, but we certainly have been moved by groundswells. We had a little trouble preparing this statement on a group consensus level because as captains our responsibilities are quite clear to us. First off, it is our responsibility in the safest way possible to create a reasonable rate of return in dollars for the investment of risk, labor, and time spent away from families for ourselves and our crews. Additionally,

it is our responsibility to generate the greatest amount of revenue possible for the vessel, ensuring not only its integrity as a safe place to work, but to maintain its position in a very competitive industry. Over the past years, there's been a steady downward spiral in fishing opportunity for meeting these responsibilities. The original inshore-offshore agreement helped to slow the decline in opportunity and also recognized that a 35% inshore quota did not represent the quota owed us. However, when finalized by the Department of Commerce the stair-step to 45% was eliminated denying us the opportunity to regain at least a portion, a partial share, of the fishery we lost. We are not here to ask for a hand-out, and the term fish grab certainly does not apply. We are here only requesting that the opportunity to fish, which has been taken away, be returned.

Conally: . . . Over the years we have created long-term and experienced crew members with little turnover, good paying jobs and safe working conditions. These vessels operate with four to five crew members who are experienced in doing several jobs which include engineering, sewing web, cooking, wheel watching, maintenance of the gear and the vessel. These crew members are not easily replaced; there's no substitute for experience. Decline of opportunity to fish will affect the keeping of these experienced crew members because of lower incomes. Thank you.

Bronson: . . . In addition we'd also like to express our concerns to NMFS's concerns of the increased effort in the CVOA. We feel that a year-round CVOA would allow us and similar catchers to operate in a safe manner without further impact to the grounds as they are now should there be an increase in the shoreside quota. The CVOA is precious grounds to catchers that would be a heavy concern to safety of operation should that ground be lost. The existing CVOA has provided an opportunity to have a safety net of a shelter and any loss or further push offshore could and would be detrimental to all of us onboard. We have a lot of dead friends. The impacts of your decisions are not always seen by you and the non-active lobbying for these issues. We are there. We live with the risk of your decisions.

Lock: . . . As we listen to people in the offshore sector talk about maintaining the stability of the pollock fishery we wonder what stability they're referring to. Over the past eight years no new pollock fisheries have been created. There's only been a reallocation of opportunity to more specific groups. We and other long-term fishermen have continually been the ones to pay the price. Since inshore-offshore 2 finalized, the price has become too great. As further reallocation of pollock in the Gulf of Alaska takes place, we can no longer be the only ones to pay the price. We've had quota taken away beyond the point of fairness. We now need to get something back. The only avenue left is to reallocate more pollock to the inshore sector. Finally, in the interest of other fishermen on catcher boats outside our sector, we would support a quota split be made between offshore catcher processors and the true mothership sector.

Council questions:

Mace: . . . What class of vessels do you skipper on, under 125 feet, or bigger than that, or what?

?: It's a 50-50 split I think here -- is that right? [talking among themselves] I'm sorry. It's 3 to 1; three over 125 and one under 125.

Mace: The second question. The AP came up with a recommendation which is new to the Council, Alternative 4 which would set aside for catcher vessels less than 125 feet, a specific quota. Do you think that's an appropriate thing to analyze?

?: No, we discussed it yesterday afternoon some and got a little chuckle, but that's about it. [miscellaneous comments]. . . I think in response to that, there's a little difference right in this group here from what I think you're trying to get at. And that is, you're looking at the very large vessels that pack in excess of a millions pounds, very

large horsepower and whatnot and ourselves here in this group, the vessels are either 124s that were stretched a little for a little more capacity or, like myself, at the 124 level.

Mace: Mr. Chairman, what I'm pointing at is that we're going to make a decision as to what to send out for public review and I was just questioning whether this was appropriate.

Behnken: My question is along the same lines. Your vessels are all less than 155, or greater than 155?

?: Less.

Behnken: So, you're between the 125 and 155?

?: No, we have one less.

O'Leary: One of you made reference to you in the Gulf of Alaska and loss of quota and I didn't quite understand what you meant. Could you expand on that?

?: I understand there's a stand-down period now? . . .

O'Leary: Stand-down period in the Gulf? Oh, moving between. . . I believe we're still reviewing that, but we are looking at something like that. You're talking about for the Western Gulf area at the end of the season?

?: If that comes to pass. We all participate in the Gulf fishery; that would be another loss.

Pereyra: . . . John, I don't know if you've had a chance to read this document, it's fairly lengthy. But, there's quite a bit of information in here and some of it speaks to the characterization of the catcher boat fleet and changes and so forth, and gives a lot of tables. Do you think that this document as it is presently constructed properly represents the configuration of the fleet as it presently exists?

Gruver: I haven't reviewed the document enough, Mr. Pereyra, to really respond in any manner, really, at this point. Sorry.

Austin: Gentlemen, do you all four independently own your fishing vessels:

?: [All responded no]. . . But it's different on all the boats. I own a small piece of the Viking and the Westward.

?: I own a piece of the Westward and the Viking and Bill has the same.

Austin: One of the concerns that I have is a loss of independence of the catcher vessel fleet. In the document that Dr. Pereyra was asking you about, it makes reference to an increasing trend of ownership or control by the onshore plants. Would you concur with that statement?

?: Could you ask the question again, sorry, I'm lost.

Austin: Have you. . . well, let me ask in another way. Have you noted an increasing trend of ownership and/or control through that ownership, or contractual arrangements, control of the catcher vessels by the onshore plants.

?: I would say interest but not control. No one controls what I do. I'm on a lease charter of a boat and I can make my own calls as to what I want to do with that boat.

?: Same here. They have no control over my boat.

Gruver: I'd like to answer too, because I owned a boat, the Seawolf, with partners, that we recently sold to Alaska Boat Company and I operate the boat for them. And, so while there's been an ownership change, the Alaska Boat Company, and how they view delivery to Alyeska, so far that's where I've delivered. However, when it comes to the marketing association and strike, that sort of thing, no questions asked and I have told the owners that I belong to the marketing association myself and no one's questioned me when I've struck for price; no one's instructed me on how I should view information that we collect on price. Those kinds of decisions have been solely left up to me as the operator of the vessel, if that helps.

Austin: Yes, it does. Thanks.

End of questions.

3:51 pm Sinclair Wilt, Alyeska Seafoods, Unalaska. . . I am the surimi plant manager for Alyeska Seafoods in Unalaska and I'll be brief with my comments. There are two areas of the document I wish to address. The first is the inshore-offshore social impact assessment prepared by Impact Assessment, Inc. I have been a resident of Unalaska-Dutch Harbor for over 21 years. I saw the king crab boom years in the '70s; I experienced the severe depression the community went through in the early '80s when the king crab stock crashed, and I witnessed the economic revival of the community when the shorebased surimi plants were built. I have seen the community transform from a boom town with few full-time residents into a larger, more family orientated community. From that background, I can tell you that Mike Downs of Impact Assessment has done an excellent job of describing our community. The document points out that there is certainly a lot of debate within the community as to which sector has the greatest impact on the local economy. And it is certainly my view and my experience that the shoreside sector contributes the greatest amount to our local economy. The other issue I wish to address is utilization. The document points out that the onshore sector's utilization rates have improved more dramatically than the offshore sector's since 1991. This corresponds with our experience in our operation. According to the document, overall utilization in '91 was 23% for the onshore sector and has increased to 33% in 1996. At Alyeska our overall recovery in '91 was 31.7% and has risen to 38.3% in 1996. Our surimi recovery went from 19% in '91 to 24.7% in '96. In fact, our surimi recovery has averaged over 24% each year since 1993. That is significantly higher than the 16 to 17% product recovery rates used by NMFS for the offshore sector. I believe utilization should be a primary reason for a change in quota and for that reason I think you ought to put this document out for public review.

No questions.

3:55 pm Paiki Lesui, Gia Lesui, American Seafoods. Paiki Lesui: . . . I'm the bosun on the Northern Eagle and we're employed by the American Seafoods. And, this is my wife, Gia Lesui, and we both work on the same boat. We're just here today to testify against the issue here today. Because our jobs are at stake right now and I hope that the decision that you'll be making some time soon won't jeopardize our livelihood here. And also we are residents of Alaska.

Gia Lesui: . . . The reason we're testifying here today on the offshore-onshore plan is because we are unable to be in Dutch Harbor for the June meeting due to there are no more hotels available for anybody to stay there. I've been working for American Seafoods for the last five years and I've been fishing for the last seven and a half to eight years. This has been a major part of my life for almost eight years and it has helped me and my husband to buy property in Alaska and work into own a house and if it comes down to going towards the opposite of what we wish it could affect our life a great deal. I've been a resident of Alaska for the last 27 years and it's my home and I put a lot of time and money into my community and the money we do make off our boat it goes back into our community.

Paiki: Speaking from experience, I've been fishing for ten years on the factory trawlers and all these years since it's been cut short most of the year, but as the year goes by, the projects and the processing, factory trawlers that we operate out at sea, it's improving a great deal right now and hopefully it'll maintain that way, or maybe improve more, so that's all I have to say.

No questions.

[Break]

4:15 pm Bob Czeisler, Margaret Lynn. . . I am a partner in the Margaret Lynn. Our vessel, the Margaret Lynn was one of the pioneers that Americanized the pollock industry fishery. The late Dave Harville, a Kodiak resident, was a skipper and my partner. When we started there were only about three American catcher vessels delivering pollock to both shoreplants and to at-sea processors. By 1987 there were 130 American catcher boats catching 100% of the pollock. By then we had fully Americanized the pollock fishery. In addition, our home port at that time was in Alaska and our skippers were from Alaska. We did our repairs in Alaska and got much of our crew from Alaska. Then, what happened was in 1987 through the lobbying of AFTA the Anti-reflagging Act was passed which had a loophole which allowed for. . . what happened was that the catcher boats lost their foreign trawler markets and in addition to that we were replaced by primarily foreign-owned and foreign-built factory trawlers. As a result the trawler fleet went from catching 92% of the pollock resource down to 26% in 1990. That is a 66% reduction in the catcher boat harvesting of groundfish. Foreign control of the resource went to over 50% at one time and now is down to 40% of the offshore factory fleet. This Council has sought to redress the preemption that occurred at that time when they passed inshore-offshore 1 by placing a 35% minimum for trawlers delivering to shore plants. That, however, had the effect of reducing the amount of the catcher boats' share that was delivering to motherships. This Council has the opportunity now to protect the historic catcher boat fleet that delivers to true motherships. The effects of preemption should be remedied for the catcher boats delivering to true motherships; we're asking for at least a 10% allocation to the boats that are delivering to three motherships. That constitutes 19 boats; they're all under 125 feet, they're all the historic pioneers who developed this fishery, so we want our own separate share because if there's any kind of severe weather our share of the quota gets dramatically reduced because our smaller boats, between 100 feet and 125 feet have to compete with the biggest boats out there, the factory trawler fleet. This has put the motherships and the trawler fleet in serious financial problems whenever there's any kind of severe weather. To remedy this, we ask for a separate allocation. On a question of duration, we are recommending a three-year allocation period. During that time the Council can study the impacts of any legislative enactments. If the Stevens bill passes then it can revisit this issue and do some other kind of reauthorization. If it doesn't then it should study a factory trawler split with the. . . [unintelligible]. . . of increasing the trawler's allocation of fish in order to remedy the preemption that occurred from 1987 to 1990 when the foreign-owned, foreign-built factory trawlers preempted the American-owned catcher fleet. This would then perhaps be able to benefit all the trawler fleet that pioneered this fishery. Thank you.

Council questions:

Behnken: I may not be listening as closely as I would have if I wasn't getting tired, but did you, with regards to the impacts of vessels under 125 feet, are you supportive then of the additions to the analysis regarding a split for vessels under 125 feet that the AP suggested?

Czeisler: Well, I think that there may need to be a study of that, but to the extent that it delayed sending out the report, I think it would be something that perhaps shouldn't be there to complicate the matter. But I would be in support instead of is a study of a factory trawler - trawler split as opposed to doing anything based on the length of the vessel. Because there are some boats, for instance, that are 130 feet and the split at 125 feet to some degree is arbitrary.

Austin: I'm afraid I was drifting too. I didn't hear your opening remarks. . .that characterized yourself?

Czeisler: Let me just go over that again. I'm a partner in the Margaret Lynn which was one of the original boats that delivered. . . pollock in the Bering Sea. In addition to that I'm also a partner in the Ocean Phoenix which is one of the motherships and that was a boat that was formed by seven fishermen who basically bought a . . . it was called the President Wilson and Kennedy. . .and had it modified into a mothership. In addition to that, I'm the secretary for United Catcher Boats but they are not taking a position on this issue.

Austin: Then a question I should have asked earlier wasn't whether or not the Phoenix owned its catcher vessels, but whether the catcher vessels owned the Phoenix?

Czeisler: Yes. The catcher boats own the Ocean Phoenix.

Austin: And there's seven of them?

Czeisler: Well, there are actually six catcher boats that own; there are two outside boats, one of which is partly owned by one of the owners of the Ocean Phoenix.

4:22 pm Rebecca Baldwin, EEA, for North Pacific Seafood Coalition. . . I'm a resource economist with EEA and here at the request of my client, North Pacific Seafood Coalition. I want to remind you, it's been said a few times this day already, that the focus of this meeting is simply deciding whether or not to send this document out for public review. It's very tempting to go ahead and suggest all these things that should be included in the document, but I guess I have a lot of respect for this process. In the last year you have sat through many, many hours of public testimony and you have put people in all sectors of the industry on notice that this issue was going to be looked at, so we've all had ample opportunity to go out and collect our own data, do own analysis, provide our own information, and it's important to remember that this document is not the only basis for making a decision. It is one. You have so many documents in front of you that all pertain to this and give you some insight. What I think you really need is a sorting mechanism to figure out what pieces of information to pay attention to. And, that's what I hope that my presentation will help you towards. [referring to overheads now] [Change to Tape 24] We actually have four separate issues we're talking about here. Those issues were debated extensively in terms of creating definitions and problem statements. Then we had a process for talking about which alternatives we would look at in an attempt to solve those problems. That time has come and passed. We can only move forward. It is very clear in this process that nothing you do today or June or next September is going to be the definitive answer to solving any of the problems. What's it's going to be is, hopefully, a movement in the right direction, given the constraints that you have given yourselves in terms of the alternatives. So, the only choices in front of you are really which of the alternatives make a movement toward a more improved management system. And to do that you need to have some sort of criteria to figure out whether the movement's towards an improvement or away from an improvement. In February I presented to you what I thought was a reasonable body of criteria on which to measure improvement and management for these systems, and as I said at that time, those management measures came from information in terms of society, which is through the laws we passed to govern these fisheries, and it's also from recent management actions that have survived the test of being approved by the federal government. So these are the criteria have. In each of those four problems you can go through and ask yourself what type of information do I have under that criteria and how important is that criteria to me in making a decision. You can do that for each of the alternatives and the paper I'll present to you in June, I actually have done that for the four action items. This one's an example from the Bering Sea allocations. When you look at the three different primary sectors and you can. . .[unintelligible]. . .them by the different criteria as to whether or not it's more or less desirable to make an allocation of pollock towards them. The question marks up there are indicated that it's indeterminant and the gray circles are neutral and I'll save the information underneath the other boxes until June when we're actually talking about the decision. So, basically what I want to remind you is that I think the analysts that did your document did a very thoughtful and reasoned

job of figuring out what type of information you needed, given your construct of the problems and your limited universe of the alternative solutions and while it's always interesting as data comes out to say, what if, what if, if you only have three choices, all you need to ask yourself is do I have a reasonable information to pick among those three choices, or among those two choices. I don't need to know the answer to everything and there is a marginal cost to acquiring information and have to offweight (?) that against the marginal benefit of having that information in the decision process. Thank you.

Council questions:

Austin: Is it possible for us to get a copy of that criteria that you've laid out there, is it . . .

Baldwin: Members of the SSC have the entire paper. Anybody else who wants it, I'll refer them to my client, if they want it handed out or not. But, I expect you will see it in June, hopefully before the June meeting.

Austin: Could we just get a copy of the criteria sheet?

Baldwin: Certainly. I think you actually had that at the February meeting, but I'll be glad to get a copy. I'm also willing to, if someone wants to beat a dead horse, talk to you about why excessive shares is still in my criteria and it's not a reason that's been up here before, but there is a reason for still having it in the criteria base.

End of questions.

4:29 pm Eugene Asicksick, Don Stiles; NSEDC. . . Asicksick: . . . I have with me Don Stiles. We had planned to sign together, so if it will be O.K. with the chairman, he will have a few things to say after I get done. He is Chairman of Norton Sound Economic Development Corporation. I am the President of Norton Sound Economic Development Corporation which represents 15 Western Alaska communities in the CDQ program. All of the CDQ groups had chose to place all or part of their CDQs with offshore harvesting partners. Most of the groups used a competitive proposal process and went with the partners which offered them the best harvest partner package. Chief among those benefits were the royalties and employment opportunities. CDQ partnerships have meant that Western Alaska had a meaningful stake in this fishery through royalties, employment, and more recently, actual ownership. NSEDC is one of the CDQ groups to purchase an equity interest in the Bering Sea pollock fishery. We now own 50% of Glacier Fish Company, a company which owns two midwater trawl vessels. We also jointly own, along with Glacier Fish Company, a freezer longliner vessel. Through our offshore harvesting partnership we have been able to place residents of our region onto these vessels. They can earn over \$25,000 in 'A' season alone. This kind of income is extremely significant to rural Western Alaska where jobs are hard to come by and many of the government jobs and programs are being cut. We also extend the employment opportunities to Alaska residents in our neighboring region such as Shismareff and Koltag. It is very discouraging to hear the onshore sector asking for more fish when the request is going to mean shorter seasons and less income for our region. Through our offshore harvest partnership we receive royalties which have been between \$4 and \$5 million per year. We use these royalties to provide training and scholarships to our region residents. We fund shoreside infrastructure projects, salmon rehab projects and fishery development projects. Our per-ton royalty is based on the market price received for the pollock produced. It is very discouraging to hear onshore sector asking for more fish when the only previous allocation to shoreside sector resulted in depressed surimi prices. Our harvesting partner can alter some of the production away from surimi, but not all the production. Any reallocation to shoreside would reduce our royalty that we receive. Through our ownership of Glacier Fish Company we are working toward full participation in the offshore fisheries of the Bering Sea. We expect to use income from this investment to pay down debt and further in the future we expect income to help pay for programs in our region. We rely on this fishery to be an economic engine for Western Alaska. It is very discouraging to hear the onshore sector asking for more fish when any such reallocation will reduce income used by Western Alaska to pay down debt and to pay for programs benefiting their people who

by the way are Alaska residents and U.S. citizens. When we made the investment into Glacier Fish Company we were prepared to accept the risks of the fishing business. We took a careful look at the TAC, information on the new classes of pollock, the bycatch issue, market prices, and so on. When we made our investment into GFC we were prepared to live with the inshore-offshore indefinitely. Even though we were prepared to move forward with no change in inshore-offshore, if you feel compelled to make changes, then we ask that you choose one of the options which allocate more to the offshore sector. To the extent that there is concern about the impact to all of Alaska and not just the four communities studied by the Impact Assessment, consider that more of the entire pollock harvest is harvested on Alaska-owned vessels in the offshore sector than the inshore sector; that more of the pollock is processed in Alaska-owned offshore processing plants than Alaska-owned onshore plants; that the aggregate Bering Sea pollock payroll paid in the offshore sector to Alaska residents is now over four million dollars, which I believe is higher in total as well as per hour than the onshore sector; and that the vast majority of the royalties paid to CDQ groups is paid by the offshore sector. Looking at the broader impact on Alaska, any reallocation is destructive, but a reallocation inshore would on balance be most negative. It would be a fairer gesture to move forward with the status quo. But if a reallocation is to occur, then we have no choice but to advocate that the Council increase the offshore allocation as this would do less damage to Alaskan interests; than would be an increase to inshore. Let me conclude by saying that our region has one of the highest unemployment rates and highest poverty rates in Alaska. We know what it is like to have someone take money out of your pockets and wouldn't wish it on anyone. Real people's livelihood and opportunities for better economic future are at state here. It saddens me to see people in corporations trying to take our economic future away the way they have been doing, this push for more fish. Everyone has to live with the rise and fall of the TAC and the rise and fall of the market prices, but nobody should have the right to ask for their share and get it through this council. Thank you.

Stiles: . . . I am the Chairman of the Board of Directors for NSEDC and our decision to buy into Glacier Fish as a Board was based on the proximity of our communities and where the fish are harvested. The Norton Sound - Bering Strait region isn't anywhere near what takes place in the Bering Sea, I'm sure you're all aware of that. We are grateful for the opportunity to participate in such a lucrative fishery through our partners. That participation has helped in ways that are beyond belief. We felt the intent of the program was to put our people into the Bering Sea and harvest the fish that are out there and we seized the opportunity to buy Glacier Fish 'cause our successes came from there through the pollock fishery and it didn't really make good business sense for us to buy into smaller vessels for the localized fisheries that have suffered historically due to a lack of resource. Another reason we chose Glacier Fish was for their reputation for providing fair wages for our people. If you look at the high cost of living in Western Alaska you really can't expect someone to work for \$6 to \$8 an hour as an entry level seafood processor and still provide income for subsistence needs. In our region gasoline is up to \$2.50 a gallon. That takes a lot out of a person's paycheck when you look at it over a whole year. A gallon of milk is over \$5. Glacier Fish has provided our people with opportunities in this industry but has still allowed them to remain culturally attached to the region. Our royalties from the pollock fishery have provided local fishermen in Norton Sound with a market where there wouldn't be any. It has helped provide funds for restoration projects to address the salmon problems that the people of Nome have faced for eight years. It has provided for education for our youth who dream of a higher education and provide for future needs in a declining economy. Some of those people are now working for NSEDC and in our management. Our interest in Glacier Fish is Alaskan-owned, our partners are from Seattle. We are Americans and we intend to remain that way. What we own as a portion of the whole picture is minuscule, but we realize the detrimental impact a shift would have in the overall picture of our success as a CDQ group and we recommend the status quo. Thank you.

No questions

4:39 pm John Iani/Allison McFall, UniSea. Iani: . . .with me is Allison McFall, our human resources manager. I'd like to brief and I know that you would like us to be brief as well. We're here representing all the employees of UniSea and would like to remind the Council that in past Council meetings where this issue has

been discussed we've had a number of UniSea employees testify before the Council. We neglected. . . or, we decided not to have them testify at this meeting because the nature of the meeting and where the meeting wants. . . is deciding for this document to go. I hope that the Council will not take their absence as lack of interest in this issue because that's certainly not the case. Again, I'd like to bring the Council back to where we're supposed to be and where we're supposed to go, and that is simply to send the document out for public review with the alternatives to go forward as well. And I bring a little history because I was here in 1989 when inshore-offshore 1 was first put together and have been here ever since that has happened and would like to remind the Council that the record and the analysis is a living and working document and it will continue beyond this document and beyond this meeting. Just in the testimony that you've heard before you and the testimony that was before the AP, I think this document has done what it was supposed to do; it's accomplished its purpose. It has put out to the public a bunch of information, a lot of information that has been both complex and full and it has brought the public back to you with ideas and information that it needs to fill the gaps that are in that analysis so that you as a Council can be better informed. I would like to discuss a couple of things, though, concerns that have been brought before you and probably will be brought before you after I am finished and after Allison is finished testifying. And those are a couple of. . . three items actually: market concentration, fish meal as a product, and employment and CDQs. And, with regard to market concentration you are going to hear a number of witnesses testify that the onshore industry is dominated by a global firm and a global conspiracy to take over the fishery world through the inshore-offshore allocation. I don't subscribe to that theory and here's the reason why. UniSea is owned by Nippon Suisan, 100%. UniSea's been operating in Alaska for 25 years. In the pollock fishery, UniSea has 12 vessels delivering pollock to UniSea. UniSea owns 49% of one of those vessels, about 5% of the production that goes to UniSea. UniSea has had a market share, or share of the inshore quota, its vessels have harvested about 23-24% and we negotiate with those independent vessels twice a year, every 'A' and 'B' season, on the fish price. More often than not there's been a strike because the price that we've offered has not been acceptable and they have not fished. We sell our products, which is the important part, we sell our products to Nippon Suisan in part, but we also sell our products to a lot of other buyers. We sell about 45% of the surimi that we make to Nippon Suisan, but we sell 55% to independent Japanese buyers and also buyers in Korea, Taiwan, China, and about 10-15% is sold in the United States. Some of it goes through our analog plant, UniSea's analog plant in Redmond, Washington, and on through distribution there. And, I think that's important for you to know because there will be some allegations in front of you that Nippon Suisan is globally dominating the surimi market. If that were the case, they would demand, I would think, that all the surimi that we produce be sold to them and controlled by them and that is not the case. We sell at arms length to competitors, some of them. . . and. . . Nissui also buys some product from some people in the offshore sector as well. The other concern that will come before you is meal as a product. There will be some who will say that meal should not be considered in the EA/RIR and should be removed as a product. I don't think that's right. I think that the document before you shows how much meal is produced and what that contributes to overall utilization. And in the inshore sector, some will say that the reason why we have meal plants is to comply with the pollution laws. Well, that's simply not the case. There were two ways to respond to waste discharge. One was to build meal plants and produce another valuable product. The other, and frankly the more easy way, was to throw the carcasses and offal back onto the catcher boat and have them sent out to the Bering Sea and dump it in a dumping zone. We simply didn't want to do that. So I think that the argument that meal should not be counted as a product because it was a response to anti-pollution just doesn't hold weight. The third area I'd like to discuss is employment and CDQs. We are a CDQ partner with Central Bering Sea on crab and we are hopefully a candidate in the pollock CDQ arena with Coastal Villages Region Fund. We have joined with the factory trawler Alaska Ocean to put together a proposal and are in the process now of responding to that RFP, and actually have been interviewed for a second time and hopefully maybe chosen. But, the important part for the Council to know is that the royalty that we offer together as a joint venture was not conditioned upon the inshore-offshore allocation that's presently before you. In other words, it was independent of whatever decision this Council makes, and I think that's important to know. And, I would like to have Allison kind of provide a little bit more detail about some of the employment that we provide at UniSea in Alaska because the document shows you numbers of employees and wages and locations but it really doesn't show what were these jobs really like, and I think that's

important because some Council members, some members of the public have certain ideas about what shoreside processing is like and I'd like Allison to go over those a little bit for you.

McFall: . . . We do provide a large number of excellent employment opportunities at our Dutch Harbor facility. These positions include not only the seasonal processing positions but many year-round, full time positions. And our employees find UniSea to be a very positive place to live and work and some of the positive aspects of working at UniSea include the strong company emphasis on treating all individuals with a great deal of respect, a very strong policy against substance abuse, our open-door policy where employees can discuss any concerns at any time, a generous educational assistance program, very, very fine housing facilities where employees make their homes. Our benefits package is truly outstanding. As you probably know, the housing and meals for our Alaska employees are free, so they are enabled to save a very large percentage of their income. Our medical and dental insurance is excellent. We also provide both a 401(k) and a pension plan which I think is very unusual. Generous transportation policy for our employees, year-round, full time employees generally get two trips out a year, either to their point of hire in Alaska or to Seattle. Our year-round full time positions in Dutch Harbor really encompass a very large variety of fields, including just to name a few: production management, accounting and administration, production maintenance, power plant and meal plant operations, inventory management and purchasing, safety and security, environmental compliance, fleet support, hospitality, so a very wide range of a true career position, and all of them providing an excellent annual earning for the employees. We have a very strong promotion from within policy; all of our positions above the production processor level are posted throughout the company and last year over 60% of all the positions in the company were filled from within, so many of the departments and the career opportunities that I named previously are filled eventually from people who started as production processors. We have placed a great emphasis on our Alaska recruiting program. Increasingly over the past several years our HR staff has really worked hard to develop the program. We work very closely with the State of Alaska employment security department, specifically with Virginia Klepser, the State of Alaska seafood employment coordinator. Initially we concentrated our efforts on Southeast Alaska, but this last year we expanded to recruit in locations throughout the state. For 'A' season we went to 12 locations throughout Alaska and also recruited, of course, very heavily in Washington state. Out of those efforts in Alaska we hired 65 employees and in fact just this week our recruiter was here in Anchorage and hired 25 people. And, as John mentioned we have submitted a proposal to CVRF for the 1999 pollock CDQ and that proposal includes a commitment on UniSea's part a very large number of employment positions for the CVR residents, including a number of hourly positions that we've committed to, and an apprenticeship program for four people, and a very nice internship program for six CVRF residents in four departments at our corporate headquarters and at our Dutch Harbor location. Just to conclude, we're fully committed to our employees in Alaska, providing very good career opportunities and a very positive work environment. Thank you.

Iani: Just in summary, . . . I forgot when I was talking about vessel ownership and vertical integration, since inshore-offshore was in place we have actually reduced our ownership interest in vessels. In addition to the one vessel I mentioned, we'd also had a minority 25% interest in the fishing vessel Alyeska; we no longer have that at all, so if anything we have divested ourselves of the harvesting capacity. Be happy to answer questions.

Council questions:

Pereyra: John, I would assume that you're familiar with Nippon Suisan's worldwide operations and that being the case, are you familiar with their operations in Chile involving salmon?

Iani: I'm only. . . I've never been involved or seen any of those operations, Dr. Pereyra. I know that they import Chilean salmon into the Japanese market, yes, I do.

Pereyra: Well, they happen to have a large operation over there called. . . [unintelligible]. . . Antarctica and I just wanted to find out if you were aware of that because you made a comment that you didn't see them as having some sort of a global strategy, you might say, for their operations.

Iani: No, that's not what I said at all, Dr. Pereyra. What I said was that, and I think that's a pretty good example of exactly what they're not doing in Alaska and in the Bering Sea, and so I'm glad you pointed that out because if they were going to follow that sort of pattern in Alaska in the Bering Sea I think they would be asking us to (a) buy our vessels, and to (b) sell all of our products into their marketing chain which, as I said, we're not doing. As a matter fact. . . we've gone down since inshore-offshore I went into place. Our sales to Nissui have gone down from about 60% down to about 45% presently.

Austin: John, you indicated that you have 12 vessels that deliver to you and I think the report points out that UniSea is the exception, which literally doesn't own any of the vessels themselves. How do you determine each year who the 12 are, and is there much change from year to year?

Iani: Mr. Austin, there has not been much change. We have with the vessels an agreement with them that if they either would like to add a vessel to the fleet or we would like to add a vessel to the fleet, it takes approval of all the fishing vessels who fish for us, so it comes at the end of each year, well, actually not year, but each season, where we meet with the vessel owners and decide whether or not they would like to add a vessel into the fleet. So, it's kind of an arms-length agreement with them and so far that's how it's worked.

End of questions.

4:53 pm Bruce Cotton, Cracker Barrel Old Country Stores. . . I'm vice president of government relations of Cracker Barrel Old Country Stores in Lebanon, Tennessee, a chain of more than 350 restaurants throughout the U.S. Most of you know me better as the senior vice president of public affairs for Long John Silvers. I also proudly served on this Council's Advisory Panel from January 1994 until my removal this past December. I'm here today representing three major users of Alaskan pollock, fillets, and minced product in the U.S. The companies I'm speaking for include Gortons of Gloucester, a major supplier to the McDonald's chain of restaurants and to the U.S. retail market under its own brand, LD foods, the other major supplier of. . . [Change to Tape 25. . . some comment lost in tape changeover] . . . The combined production and sales of these companies account for almost 500 million fish meals made from Alaska pollock consumed by Americans each and every year. These companies are strongly opposed to any further allocation away from the offshore sector to the pollock harvesting and processing industry, whether through increasing the percentage of fish to be processed onshore or through expansion of the CVOA by time or area. We support an extension of the current program as is while the Council completes work on its comprehensive rationalization plan. We are opposed to reallocation of the pollock quota because we are deeply concerned over the effect such a reallocation would have on fillet production out of Alaskan waters. In calendar year 1997 less than 5% of the onshore sector's primary production went into fillets and this was a decrease from 1996, while there were 30% of the factory trawler's primary production went into fillets. For deep skin pollock, an increasingly important product for the U.S. food service market there was no shoreplant production in 1997. This is according to NMFS reports. There are two floating processors anchored and registered as onshore plants and they do produce deep skin fillet production, although certainly not enough to come close to satisfying this growing market. It does not appear the shoreplants have either the intent or the capacity to produce fillets sufficient to satisfy U.S. demand. Inquiries to the Japanese-owned shorebased plants regarding producing deep skin pollock for sale into the U.S. market have been unsuccessful. Only one of the onshore plants has made any serious effort to produce fillets. The picture's not much better for minced products which is used in the production of fish sticks for the U.S. market. In 1997 minced production from the offshore sector comprised almost three-quarters of the total out of the Bering Sea. Less than 1% came from the shorebased plants. For the companies I am representing today, 100% of their products are further processed in the U.S. creating further economic benefit to the people. While we do not have

the specific numbers in front of us, a much greater share of the fillet production is further processed and consumed in the U.S. than is the case for surimi blocks. If the allocation to shorebased sector is increased, the companies I am representing here today would be forced to buy more of their product overseas since the shorebased sector has not demonstrated an interest in fillet production. A greater allocation to the onshore sector would divert fillet and mince production currently generated by the offshore fleet into surimi production by the large-scale shorebased plants which in all practical purposes are dedicated surimi facilities. It is ironic that the Council would consider reallocation which will restrict production of fillets and minced blocks at a time when these products are becoming more and more attractive. There is currently a critical shortage of fillet and minced products in the world market. A reallocation by the Council restricts the U.S. industry's ability to work to fill that shortage. Alaska's been led along a dangerous path by the proponents of allocating more and more product to vessels delivering onshore, increasing the allocation will only increase the dependence of the U.S. groundfish market on the product forms and markets primarily served by the shoreside plants. The pollock industry needs alternatives to surimi so the fishery does not follow the same path as the Alaska salmon industry. We urge you to roll over the current inshore-offshore program. One final point I would like for the Council to consider. My former Advisory Panel seat was the only direct voice the U.S. market and consumers had on this Council. I have received numerous letters from members of the Council and from members of the Council family commenting on the loss of the consumer seat. I would implore the Council to reinstate someone, but not me, I'm not speaking for myself, but to reinstate someone with a connection to the U.S. markets and/or the end consumers to the Advisory Panel. Mr. Chairman, I'd like to thank you personally and to thank the Council for their courtesy to me and the time and consideration given this matter. I also want to thank you for letting a fella from Kentucky be part of this Council's process since 1990.

Council questions:

Pereyra: Bruce, one of the aspects of this whole process that I think is not too understood is the issue of how the secondary processors, or the tertiary sector, is able to shift, or not be able to shift, from one sector to the other. And I was wondering, do you have a difficulty making those kinds of switches from, say a deep skin product that you may have developed to something which might be entirely different, out of New Zealand or something like that?

Cotton: Well, you know historically our company used only cod from the North Atlantic in the early founding of it and for many, many, many years. Then as the cod supply began to dwindle we began searching for a new product form and it was one of the shorebased plants that came to us with a product called pollock which we weren't too familiar with. We experimented with that and we found that the regular skin pollock really did not work for our consumers or for our restaurants, but when the deep skin process was developed that our consumers accepted that once again. We also buy fish, as I've said before this Council before, from New Zealand and from South Africa and we find that the product can be differentiated between by our consumers which is a pretty amazing thing to me, but they can. If we were to switch to other products it would take a whole new educational process basically by Long John Silvers to train the customers that this is a product that we're serving now and it's good, wholesome and tasty.

Austin: Partly following up on that is, you're indicating there's a taste difference that can be detected; is there is a cost difference to your company, is there an economic impact of replacing the lost pollock with New Zealand fish.

Cotton: Well, deep skin pollock sells for more per pound than regular skin pollock does, so yes there is an economic impact on us.

Kyle: Bruce, could you just tell us one more time what it is that your consumers like and dislike, fish that. . . I think you told us at the first meeting you ever came up here.

Cotton: What it is they don't like?

Kyle: . . . what it is that they like, they like a fish that's. . .

Cotton: They like the fish that doesn't taste like fish. Sorry, but that's true.

End of questions.

5:04 pm Jim Wilen, Fisheries Economist, UC Davis. . . I'm a fisheries economist from the University of California at Davis and I'm here on behalf of At-sea Processors to discuss the potential market implications of this reallocation of raw pollock. I've spent most of my 25-year career specializing in fisheries policy issues with a particular focus on interrelationships between fisheries policy and fisheries markets. Most of my recent work is involved trying to learn, for example, how fish prices are determined, particularly in the Japanese markets. I've studied sockeye prices; I've studied salmon inventories in Japan, I've studied roe markets, I've studied the sea urchin market and tried to figure out how prices in Japan are transmitted down to harvesters and divers in the sea urchin case. The other thrust of my research over the last 10 years has been in examining how policy changes affect markets and the profitability of fisheries. For example, I conducted a study just after the British Columbia ITQ system was adopted and focused in particular on how that was affecting the market. I think I've learned a couple of broad lessons from looking a range of fisheries around the world. First, policy changes that are aimed at one goal, such as stock conservation or employment or different user groups, very often have unintended and unforeseen effects on the market. Second, these market effects can have of course substantial impacts on resource harvesters and others who make their living from public resources. Now, why is this important in the inshore-offshore debate? Well, because I think that once again the market implications of this reallocation haven't been given serious enough attention and it's possible that we're setting ourselves up for adverse consequences by not thinking about this more carefully. Let me walk you through my thinking that's led me to this conclusion. Basically, my view of these two sectors that harvest this resource is that they feed raw product into two quite different production, marketing and distribution systems. The inshore sector is one that is tightly linked into and dependent upon the Japanese marketing system. The inshore sector is essentially a first stage in a production chain that converts surimi into a range of end products in Japan. Most of the profit in this system is earned in Japan in the value-added activities that are associated with processing and distributing the final products to Japanese consumers. This marketing and distribution system is dominated by two very large fisheries conglomerates who own processing, storage, distribution, retail and a whole range of supporting and peripheral industries. The reach of these two firms extend far beyond their immediate ownership interests because they also act as price leaders in this system. It's common knowledge among all people who sell into this Japanese system that these two large fisheries product conglomerates do things like set price ceilings, they announce maximum prices and use other overt and covert signals that serve to discipline the rest of the market. Now these practices of course are acceptable in a long standing tradition in the Japanese business culture and from their standpoint of course they make perfectly good sense because they have a very hungry food production and distribution system which basically needs secure volumes of low priced raw inputs. But being subjected to those business practices is not necessarily in our best interests as U.S. citizens, for obvious reasons. First, by becoming inflexibly dependent on that system we end up simply on the receiving end of a marketing and distribution chain in which the profits are made and retained elsewhere. Moreover, when market conditions shift in such a system such as in the recent Asian financial crisis, we bear a disproportionate risk because we haven't got a diversified portfolio of buyers to sell into. Let me talk a little bit about the offshore sector. The offshore sector of course is also dependent on the Japanese market for its surimi sales. There are in my mind two important differences between the inshore and offshore systems, however. The offshore sector is independent of the corporate structure of these two large conglomerates. The offshore sector actively works around major players by cultivating sales arrangements with other secondary buyers in Japan. In addition, the offshore sector converts and sells its raw product into a broader suite of non-surimi products including high-valued fillet products processed and marketed in the United States and other countries, as the previous marketing expert testified. As a consequence, when

surimi market takes a downturn, or when fillet prices rise, the offshore sector can react and move more into other higher income earning opportunities. Now, I need to point out, of course, that the offshore sector also has a reasonably large Norwegian entity which markets surimi as well as other fillet products. But in this particular case we have to regard this as a good thing from the perspective of U.S. consumers because essentially having another integrated and flexible fisheries company that markets across a diversity of products generates more competition for the raw product, which is in the end what we sell. Now, where I end up on all this is fairly simple. There seems to me to be nothing to be gained and perhaps something to lose by shifting raw product away from a marketing sector that's characterized by lots of players marketing a range of surimi and non-surimi products into a range of buyers, other than the big two, towards a sector that's largely dependent upon two large conglomerates whose fundamental interests are in procuring a large volume of inexpensive raw inputs. This isn't a decision it strikes me that a private business person would make and it doesn't strike me as a sensible decision that we should make with a public resource. Now, I want to wrap by saying that I want to make clear that I'm not making an anti-big business statement here, I'm not making anti-vertical integration arguments, or an anti-Japanese argument. I'm simply arguing that we as U.S. citizens that effectively own this resource ought to be trying to increase rather than diminish the competition among the buyers of our raw product. Taking resources away from the very sector that provides a countervailing force to the two large surimi conglomerates is clearly not the way to do this.

Council questions:

Pereyra: Dr. Wilen, in the last statement you made about what the U.S. should be concerned about in terms of maximizing the value of the resource, we've been talking a lot about the differences between the nation and Alaska, or I should say Alaskan and non-Alaskan. Is that issue embodied in this, or is that a separate issue?

Wilen: Well, that's a good question. I've been coming up to Alaska and working on Alaskan, and keeping abreast of, Alaskan policy issues for 25 or 30 years and I know that there's a pervasive perception among Alaskans that their interests often . . . [unintelligible] . . . with those of non-Alaskan citizens. And I've tried to think of that issue in the context of this particular inshore-offshore dispute, and when you start thinking about all the players involved and all the different elements, it starts to drive you crazy fairly quickly. I've come up with a way that I think makes sense to think about it. And, that is to first put on my hat as a U.S. citizen, and ask the question, what do we have here and what should we do with it. And, the way I view this, we have a resource here that effectively makes us like corn farmers. I mean, we're producing a raw product and it in some sense is really in our interests, as it would be to corn farmers, to have cereal conglomerates and feed manufacturers slugging it out over our raw product. And so basically, we're sellers in the same sense that a corn farmer is a seller and it makes sense to generate more competition for the raw product. Now, I raised the question, what kinds of markets do we have right now for raw product here in Alaska and actually we really only have one competitive raw product market here, that's the CDQ fishery. It's new, it's green, but it's competitive in a sense that both inshore and offshore sectors compete from that raw product and the beneficiaries of that of course are the CDQ who can be thought of as the owners of the resource in that particular case. Whichever sector, inshore or offshore, generates the most value from its suite of products, basically affords it the ability to bid the most for those CDQ opportunities. But, whichever group wins the bid, the CDQ communities benefit of course from this. I want to talk about this particular market because this year I understand that the price of CDQ fish is \$250 to \$270 a ton. In some sense this is the only barometer we have here in Alaska to tell us what price raw fish fetches in a competitive market. Now, I want to contrast what's going on in a CDQ market with what we see in the inshore market. What price is being paid to harvesters in the inshore market - about \$170 a ton. And this exactly illustrates my point, which is basically the competition among buyers and market structure ultimately have a big influence on prices. In the CDQ fishery, the competition is open and vigorous among a large group of different players. In the inshore sector prices are comparatively lower reflecting the corresponding lack of competitive forces there. We have in some sense dedicated a big chunk of this resource to a system that doesn't exhibit

adequate competition within itself to bid raw product prices up and that's why I think you see CDQ prices of \$270 a ton and inshore prices at \$170 a ton. . .

Lauber: . . . Just a . . . this is all very interesting, but I've really forgotten what the hell the question was originally. . . are we going to get the answer here pretty quick?

Wilen: Well, I was just going to answer the question. . . there's a long. . . my thinking on this, I said I first put on my hat as a U.S. citizen. And the conclusion there is, of course, is that good and vigorous competition for raw product is a good thing. Now, I'm not Alaskan, but I'll put on a hat as an Alaskan. If you're an Alaskan, the question is what are we getting out of this resource. Well, we're getting some jobs, we're getting CDQ benefits, and we're getting some benefits to some Alaska harvesters, and we're getting, importantly, raw fish taxes. Now, the bottom line here is that all of those things to Alaska are in effect connected to a vigorous raw product market. And Alaskans would benefit most from a vigorous raw product market and in that sense, the interest of the U.S. citizens and Alaskan citizens are basically the same.

O'Leary: Doctor, I don't know that I could agree with you that, although I'm sympathetic to some of your arguments, the issue on CDQs versus the product that's being paid for on shore. My experience in the industry is that because of the nature of the way the CDQ fishery is being prosecuted that tends to have at least some effect of having value to that product to the people that are producing that. And therefore it might, it seems to me, mean that they could afford to pay a little bit more for it. You're talking about an open entry fishery at one point where people have to put a whole bunch of product through a plant all at once and then marketing it, versus a much more orderly planned fishery where you can sort of maximize your potential. I guess. . . it's just a comment, I'm sorry, Mr. Chairman.

Wilen: Actually, I'd like to respond to that because I think that's clearly the case. People I've talked to who work in the CDQ fisheries say that there are benefits to them in participating in that, for example tuning up their vessel for the open access fishery. It's also the case, of course, that people who bid CDQ contracts offer other things which in fact reduce their bid a little bit. I guess the point I'm raising here is that I know that some onshore plants are willing to pay \$250 to \$270 for CDQ fish. They, if they successfully win those bids, also have to pay harvesters to go out and get them, another 80 bucks a ton? So, they're willing to pay for CDQ fish, \$350 a ton, but they're only paying their own harvesters inshore \$170 a ton. Now, we can talk about numbers here, but there shouldn't be that big a disparity.

Benton: Dr. Wilen, I have two questions. One is, you've made a number of assertions and as Rebecca Baldwin reminded us, everyone has been over this information a fair amount and has had plenty of opportunity to know they're supposed to bring their information here and make it available. And, I'm curious whether or not you have and can supply us with the supporting data for the assertions that you've made and if you could do so, I for one would like to see it.

Wilen: Which assertion in particular, I mean, part of what I argued was simply that competition is a beneficial thing and in fact in some sense the thrust of what I'm saying.

Benton: Any supporting data you have for your testimony, can you supply it?

Wilen: Well, I could, if I have another opportunity to, sure.

Benton: Well, I mean after the meeting, or whenever, or to the Council staff.

Wilen: I can supply it at the next meeting; if you want a numerical investigation, for example, of markets, margins, those sorts of things.

Benton: This my second question? I guess it is. . . I wanted a little clarification of what he meant by his data. . . [Lauber responds, but is away from mike, can't hear]. . . O.K., have you developed numerical analyses to support your testimony yet and if you have, can you provide it to us now or within the week, or . . .

Wilen: Well, I haven't made a numerical testimony here, basically.

Benton: One other question, then, Mr. Chairman. O.K., I also understand that you're involved with Dr. Terry perhaps to develop the long-term economic data program that the Council, or the National Marine Fisheries Service, may try and implement to provide the Council with the kinds of information we've asked for. Is that correct?

Wilen: That's sort of correct. I have a colleague at the University of California, Doug Larson, and we both have a pretty active fisheries research program and this particular contract that Doug and Joe Terry worked up basically and I was involved initially in sort of thinking through what kind of things ought to be gathered, but I'm not really playing an instrumental role in the project itself.

Benton: And, that's under the aegis of the University at Davis, not under your current contract, right?

Wilen: Yes.

Fluharty: Dr. Wilen, does any of your work. . ., you mentioned you've been looking at Japanese markets, and perhaps others around the world. I think in light of what Mr. Benton is asking, is what kinds of information is there out there in terms of studies that demonstrate the ability to make the kinds of market control that theoretically I think we all understand are possible, but, what evidence do we have that this actually occurs. I think that kind of would be helpful to the Council, to have your insights as to what's available, what can be said along those lines.

Wilen: And I think the kind of information that would be important here and the kind of information that is important, actually, is for example a comparison of patterns in wholesale prices and patterns in exvessel raw fish prices. The data that I've looked at that pertains to the pollock fishery show basically a rising margin between those two. In other words, exvessel price has been relatively flat, wholesale prices are trending upward somewhat. But margin analysis of that sort is the sort of thing that you would be looking for because in a competitive system with enough sufficient competition among buyers, what you'd see is an exvessel price tracking a wholesale price. So, wholesale prices are moving up and down, you'd see exvessel prices moving up and down, too.

Pennoyer: Jim, I guess in following up a little bit on what Mr. Benton asked you and I'm still unsure of what we're ending up with. Are you presenting a report to the Council at some time, or we simply taking this as expert witness testimony, and have to evaluate it with no other follow up. While I agree your testimony wasn't strictly data driven, there are a lot of things that were based on studies you have done that are not accessible to us directly, so I'm still unsure where we leave all this.

Wilen: Well, as I said, in some sense what I'm arguing doesn't require much more than common sense. It basically requires you to believe that there are people out there looking for profit opportunities and that they exploit them and that in a situation where you have a raw product that's used up a chain of subsequent secondary and tertiary products that, when there's vigorous competition in the marketing chain, the activity of that gets passed down to the raw product and that's something that agricultural economists know, for example, when they're looking at the mechanisms by which changes in food demand affect the demand for corn on the farm. So, I mean, in some sense I'm trying to present something I think is based on a very few set of simple premises which not too many people can find objection to.

Pennoyer: As a follow up and sort of a second question, the answer then is yes, you're testifying as an expert witness, no there won't be a written report, and so I should get a print out from the Council record if I want to recall what you said.

End of questions.

Kyle: Mr. Chairman, just for clarification. We're receiving public comment, aren't we? Not testimony, expert testimony. . .it's public comment.

Lauber: Public comment, technically, yes.

[miscellaneous comments]

Pennoyer: Mr. Chairman, I remember I/O 1, when I think the Chairman reminded me that the record is the record and so it's all part of the record and you need to use it as you see fit in making your decision.

Lauber: Technically, I guess the terms the way we use them are interchangeable, but I've heard both used.

Pereyra: A comment following along this dialogue going back and forth about whether or not there are numerical models available and, you know, a lot of people are making presentations to us and they aren't providing us with any information, I mean, it's just testimony and I think we view it as that. . .[unintelligible]. . .documents or something, you know, we have that for a record, otherwise we just have their. . .

Pennoyer: . . .Dr. Wilen. . .because I certainly appreciate his testimony; I wasn't inferring I did not, and I don't think Mr. Benton was either, I think we were trying to determine if we're getting something else to follow up on or how the Council should recall that testimony and use it. Thank you.

Benton: Mr. Pennoyer summed up what I was after. I just wanted to know whether the gentlemen had, because he's an expert, whether he had further professional analyses that he'd put together or not.

Recess for the day.

April 24, 1998

[Change to Tape 26]

8:15 am Glenn Reed, North Pacific Seafood Coalition. . .I'm here testifying today on behalf of the North Pacific Seafood Coalition. We're a group of shorebased processors, two mothership floating processors, and catcher boats. I'm speaking today in favor of the document before you going out for public review. I passed out the morning, or Helen did for me, a small packet with a clip on it with some information that I wanted to go over real briefly before I get into my testimony on the document. The slide up above right now is from those documents that I passed out to you and they include a variety of information about one of the large companies involved in the fishery, American Seafoods. You've received documents over the last week or so characterizing Nippon Suisan's parent, Nissui, and Maruha, the parent of Westward Seafoods and partial owner of Alyeska Seafoods as having a global vertical integrated strategy to control this fishery specifically and possibly others as well. This mission statement above on the screen is from American Seafoods and the only thing it doesn't include is their global strategy, I guess. I've also included a copy of the website of Norway Seafoods, this strategy is from the ocean to the plate. If you'll look at the website of American Seafoods, on the back page it lists a shipbuilding company that they own 67½% of, that's several of their vessels, the American Triumph, the American Empress, Arctic 1, and American Monarch, so they're integration seems to reach into the shipyard and capture some value

in that part of the chain as well. I've also included, as a result of my understanding that you've received information about salmon as well regarding these Japanese companies, I've enclosed some information on salmon farming and Norway Seafoods continuing a growing investment in that industry in the back of your packet for you to look at your convenience, though it's not part of this discussion specifically. This issue of vertical integration has been interesting and troublesome and I've been listening with a lot of interest to the testimony that you've heard from professors of economics and on down to the line to people like myself who take a little simpler and less educated view of these things. I was interested to read in the Wall Street Journal this morning an article on corn wheat prices drop. . . [unintelligible]. . . , talking about futures and inventories which weren't discussed much in the talk yesterday. One of the things in this article from the Journal today says, 'outside the volatile world of meteorology, market participants remain concerned about the Asian economic situation which has dragged down agriculture commodity prices throughout the year.' And, I'm not sure if that's what was being insinuated by the discussion on corn yesterday or not; I don't know if the Japanese are controlling our corn market, too, seems like it might be a possibility we should look into to. To move on to the document, I only have four points that I want to go over today. Those include utilization, value, employment, and taxes and fees. These are points that we have consistently tried to bring to the attention to the Council and others involved in the process as they may affect the allocation of the Bering Sea pollock resource. Starting with utilization, from the April 1998 Council document, page 85, the utilization rates above, indicate a consistent and growing trend of a gap in utilization between the inshore sector, the true mothership sector, and the offshore sector. And, as been mentioned before, there has been issue taken with the use of meal in these utilization numbers. As meal becomes more of a integrated product in industries beyond farming of fish and into farming of chickens, pork and beef, it's becoming a more valuable product and we see its price going up on the world market and I think it's critical that it continue to be included in any valuation of utilization. As we've been encouraged, if not forced, to make use of all the products, I think it's important to note that the shorebased processors have been inventive in ways to recover costs from utilizing what was formerly considered waste and compare that to a dramatic difference in the offshore sector. In the value-per-ton of pollock in the Bering Sea, my chart here combines the mothership sector and the inshore sector's value, not on a weighted scale. I didn't weight it at all; I took the total value per ton out of the document, I added it together and divided it by two, so it's probably a little lower than it would actually be if it was weighted. It's still about 6% higher than the value per ton in the offshore sector and I think that's. . . it's interesting to me because up until this point in this process we have been consistently accused and referred to as getting less value and making less valuable products and on and on and on, so it was interesting to us and somewhat of a surprise to me personally that this number came out this way. Most of the discussion has been focussed on it being just the opposite. The employment issues seems to be one of the key and critical issues in the debate. From the Council document, updated employment information paper dated April 17, 1998, based on offshore information provided by the At-sea Processors on onshore information provided by the Department of Labor, we noticed again a dramatic difference. And while these numbers differ from some other numbers that have been presented, the trend seems to be very consistent and they track the work of Impact Assessments, while they mention that one may be related to an FTE component and another is a year-round employment figure, there's a trend regardless of the measure used, of consistency between the percentages as well as the dramatic difference in numbers. Another issue that's come up in the wages is the issue of family wage jobs versus kind of, quote, unquote, six bucks an hour. I think it's important to note in the information before you on the inshore sector in the Impact Assessment study, the wages for Alaskan residents are dramatically higher than the wages for non-Alaskans and the opposite seems to be the trend in the offshore sector. I was also confused I guess a little bit by the job opportunity value of a job and the information presented to you by the at-sea processor, the factory trawler group, in that in the AP the job opportunity was described not as wages earned by people, I think it was about \$13,000 a year was the average they published and put in the paper to you, that's not actual wages, that's the opportunity that anyone who worked for any part of the year would have earned had they worked for a longer year if they had chosen to. I think one amendment that could be made to the document that would make it more valuable if we just put what people earned if we're going to use historical data, and not what they might have earned had they made different choices. That seems like a. . . that seems ridiculous; to me it seems like a way to twist a number that's not very real. If they didn't take it home, why put it in there. I think it's

clear that at the entry level offshore jobs based on harvesting and processing of the pollock pay more than onshore jobs based only on processing. We've tried hard to interject some of the wages for the catcher boat fleet to balance the inshore \$6 an hour processing entry level job with the catcher-processor, . . . crew share/hourly job, in some of the information there was a July study done in part by the Council that shows pollock offshore catcher boat wages average about \$60,000 a year. Those are not included in these numbers and I think it's important for you to note that and if there's a way to include them I think it's important to try to do that. In taxes and fees, particularly around Alaska, this chart [referring to overhead] isn't entirely complete, but it gives an idea of the trend and I think it's clear that where processing occurs by floating processors close to shore or by shorebased processors, and that's compared to processing that's occurring beyond three miles, the advantage to the impact on the communities and the people in coastal Alaska is again dramatically different between the sectors and your document, I think, outlines that real clearly and the chart up there just tries to pull a few of those things out. Some of them are variable and some of them are fixed. According to the Council document, there's a 17% average leakage in taxes from the offshore sector. While that includes both true motherships and factory trawlers in that data because of the time that it was gathered, there was a suggestion made yesterday that those be separated. I would agree with that suggestion, that if they can be separated let's do it and have a look at that and I think it will be telling as well. Thank you, Mr. Chairman.

Council questions:

Behnken: . . . Glenn, I guess I am a little surprised to hear about the offshore involvement in salmon farming. It's the first I've heard and have actually seen in print, oh, newsletter, special supplement to the Fair Market Report, that the offshore sector does not have any substantial involvement in salmon farming. Is this involvement of the Norwegian parent company of American Seafoods, is that something new in the salmon farming, or has that been an ongoing involvement?

Reed: . . . Ms. Behnken, I don't think it's new at all and I was surprised also as I received a copy of the Fair Market Coalition's report. . . actually I wasn't surprised at all, but I was discouraged to see that report not mention the offshore sector's involvement in salmon farming and even more discouraged and frustrated and upset to see that they had mentioned it in a way that indicated there was no involvement. I actually called their office, a very, very short time after I received that document on the fax and talked to them at some length. I faxed them this information and some other information that's older than this information and asked if they would print it. They invited me to write them a letter to respond to them. After reading the quote taken out of a letter that had been written to them previously on another issue I chose not to do that and just asked that they print these documents that you have before you and try to balance the argument that way. And I hope they give a full page on this information as they did on the other information which as it turns out was completely inaccurate. Other information I'm trying to find, I think there's also a large amount of investment from this Norway fish farming company in Canadian fish farming, a little closer to home, so those are the kind of things I'm trying to help them provide. . . provide to them to add some balance to this document they send out periodically that gets a very wide audience.

Pereyra: Glenn, when you were speaking just earlier about this leakage issue, I was wondering, I know that the shoreplants in your coalition certainly make significant contributions to Dutch Harbor and Akutan and they pay significant taxes and that's certainly self-evident, but you have some motherships that are in your coalition also and I know there has been a significant amount of product which has gone directly to Japan which has resulted in tax leakage and I'm wondering if that is a concern to you.

Reed: . . . I suppose that it would be a concern to me as a long-time Alaskan of any leakage of taxes. During my brief government career I worked hard on passing that landing tax law that was fought vehemently by the offshore sector for three years before they finally decided to start paying it. And, in the case of the motherships, two of the motherships have consistently paid that tax since it came into being. One of the mothership make a business

decision each year as to what's better to do for their company, to take the product to the market in a vessel that was designed to do that, or whether to pay the taxes, and as you mentioned, in 1997 they paid taxes, this year they didn't. This year they donated \$120,000 to educational programs and Steller sea lion research in lieu of those taxes and they've indicated their intent to continue to pay that. The leakage, it concerns me from in a sector that's currently harvesting 55% of the resource more than it concerns me in a sector that's harvesting somewhere in the neighborhood of 10% of the resource and on a percentage basis, as I mentioned, I'd like to see the difference between the motherships and the factory trawlers broken out so we can have a look. So, the short answer is yes, and you just heard the long answer.

Pereyra: ; . . . I think it's good that they're now paying taxes. There's about a half a million dollars in back taxes that haven't been paid, but regarding the motherships, what sort of . . . I mean the shoreplants certainly made very significant investments in Dutch Harbor and Akutan and King Cove and other places that are certainly very important to those communities, but what sort of investments of the motherships made that are in your coalition, what sort of investments have they made in Alaska?

Reed: . . . I think I'd agree with you that it's important. First of all, to respond to your first comment that they pay their back taxes. Again I'd like to reiterate that two of the motherships have paid 100% of the taxes on their fish since the tax came into being and neither one of them sued the state for three years to try to not pay them. As far as the shoreplants having an impact on the communities of Dutch Harbor, Dutch Harbor-Unalaska, and Akutan, I think it's important to mention that all the communities of Aleutians East Borough, communities in the Gulf, are affected in some way by this pollock fishery, either directly or indirectly. Most, though, include several communities of the Borough, Akutan, and Unalaska and I think it's important not to forget them. As far as the investment made in Alaska, as you know the shoreplants have invested about a half a billion dollars in infrastructure and plan development and improvements over the last ten years of this pollock fishery, much like the factory trawler fleet, the motherships are based in Seattle, they have office locations, at least one in Dutch Harbor, one of them remains an Alaska incorporated company, they pay corporate income taxes. I think one of the differences is that one of the offices that one of them has in Alaska has been opened for a number of years, so while in testimony yesterday I think the motherships indicated they invest their capital in their processing platforms and that's their business decision as well. I think in the offshore sector factory fleet the same might occur.

Austin: . . . Have you had an opportunity to look at the AP's recommendations to corrections they'd like to see in the McDowell report?

Reed: . . . I haven't had a chance to read and look at that, no sir.

Austin: Then I can't ask you if you support them, can I?

Reed: You could ask me if I support them, I guess, but I would just . . .

Lauber: I would suggest you review that last slide, on taxes. If you use that again, maybe you should take a look at . . . I think the first item at the top was business, which is the . . . actually the fisheries business license tax, you list 3% inshore, I think you'll find it, that's 3% and 5% for inshore floaters. O.K.? The other thing that you listed is landing tax, and you list that under the offshore fleet that lands, that 3.3%, but I saw nowhere the inshore tax assessment for Alaska Seafood Marketing Institute which is actually, corresponds to that .3% that's on the landing tax, so you're . . . to my knowledge at least to that extent you're incorrect and of course you don't get deducted for that because it was incorrect to your detriment, not to your benefit. . . in other words, you should have pointed out the taxes are higher.

Reed: Thank you for correcting that, Mr. Chairman, I guess that might illustrate one of the issues related to employment in this debate, and that is that regardless of what happens, I lose my job.

Lauber: Yes, but I might respond to that, the way we've been going, you will be back. Inshore-offshore 4 is just over the horizon.

Samuelson: Glenn, did you finish your presentation? I notice you had a number of overheads there.

Reed: . . . Yeah, I finished with the overheads and I was pretty much wrapping up when the red light came on.

Samuelson: Well, O.K., good timing. I was going to request that you be allowed to present the other overheads if you had them. Do you want to see the document go out as written with the AP's recommendations?

Reed: Yes, sir.

End of questions.

8:35 am Doug Christianson, Arctic Storm. . . I'm the President of Arctic Storm, Inc, Arctic Fjord, Inc., and Seastorm, Inc., all participants in the offshore sector. I'm here this morning to give testimony regarding the impacts of any reallocation between the onshore and the offshore and the inadequacy of the current document before you and the use of that document to make a informed decision that's in the best interests of the nation and the state of Alaska. I don't believe that the Council has basic cost data or current market information to begin to understand the various impacts associated with any change in an allocation. The document that's before you advises you that impacts are expected to be proportional to the allocation changes considered. I strongly disagree with this statement and the notion that allocations being considered are so small that net impacts to the nation from any of the alternatives will likely be significant. The necessary data has not been gathered to support this opinion with any degree of reliability. Reducing the CPs from 55% to 50% will result in a nearly 10% reduction in our harvest and our gross income. The nature of our industry is such that fixed costs are very high. As a result the last fish we harvest are those fish that add anything to our bottom line and its these fish that are the subject of a reallocation. In the current market situation all the companies in the pollock industry are having a difficult time. With a reallocation, it's the companies such as ours, a small-to-medium sized factory trawler company that's going to have the greatest difficulty surviving. I do not believe it's a proportional impact for one business to survive and another business to fail. Nor do I think a business failure is an insignificant impact, and I'm concerned that these issues are not being analyzed fully. It's been documented that since I/O 1 the shoreplants, the actual amount of fish that they have harvested has remained relatively constant and the amount of fish that the true motherships have harvested has decreased slightly while the amount of fish that the CPs have harvested, and especially the surimi CPs, like the Arctic Storm and the Arctic Fjord, has declined significantly. And I do not believe there is no coincidence in the fact that we've had eight business failures in our sector while the motherships and the shoreplants have not had a single business failure. The information before you is dated basically from '91 and '96 and while that's valuable data that you need to use during your deliberations and the public needs to see it to make their comments, you simply cannot ignore the current market situation in evaluating the likelihood of any impacts of a reallocation. In 1997 and continuing through today we've seen an incredible collapse of the Asian economies such as Indonesia, Thailand, Korea and Japan. These are the primary markets to which we sell our products or their markets which have an impact on our primary markets. The current yen value of surimi has dropped at least 25% in the last six months, and possibly more. The value of this year's roe pack was 25-30% lower than last year. Most of the CPs in our sector have not yet sold any of their 'A' season product. For our company this is a unprecedented situation. We're carrying inventories that we have never, ever had to carry in the past and it's putting a tremendous amount of strain on our company. Not only has the yen value of the products fallen, but the dollar, the U.S. dollar has strengthened over the last 12 months by nearly 17% and this has a direct impact on our bottom line as well. These economies that I'm talking about, those in

Korea and Japan, which are our primary market, they're not going to turn around quickly. It's going to take months or years for these economies to turn around and this data must be considered in determining any likely impact from a reallocation. If stability is what is desired in this industry, and I think we all believe that that is what's desired in this industry, then you should not make a change in the allocation. Any change in the current allocation is destabilizing and the likely impacts have simply not been addressed in the document that's before you. I don't think the impact on the CPs as I've just discussed has been adequately addressed. I don't think that the impact on the crews of the CPs have been adequately addressed. For instance, the crews on the Arctic Storm and the Arctic Fjord, with a shift from 55% to 50%, the crews on my two boats alone in the first year will lose \$925,000 in annual wages. Over a five-year period, that's nearly \$4.6 million and extrapolating that out to the entire CP fleet, that's in excess of a \$50 million hit in wages, wages that I think we've demonstrated are not directly transferable to the onshore sector. I think that these sorts of things need to be better addressed. In closing, I think it's important to have the diversity and the competition in the marketplace and if you reduce the competition, then you're relying heavier on price negotiations between the remaining participants which are going to be primarily dominated by a foreign parent corporation and its U.S. shoreplant subsidiary. Thank you.

No questions.

8:43 am Dave Fraser, American Independent Fishermen. . . I'm here on behalf of American Independent Fisherman but I wanted to start out with a personal note. One of our vessels is the Tracy Ann and it didn't get listed in the table of ownership in the back; it is an American-owned boat. But, just thought I'd put up a brief history of our market over the last period since inshore-offshore was passed. The first one bankrupt, mothership, Royal Seafoods went bankrupt, fished for the Valiant for a while, and they lost that boat to American Seafoods; fished for Cold Sea for a while and they went bankrupt and then the Brown's Point and they ended up bankrupt and we sold to [unintelligible] when they were managing the Victoria Ann, they went out of business, sold to American. So now we're fishing for American, so I don't think you need to worry too much about American being around much longer, and if we go shoreside, we can deal with the Japanese problem, too, so. . . That's all on that. But while the Tracy Ann's invisible in the document, Darrell's going to fix that, but the under-125 foot sector itself has been shrinking since 1992, inshore-offshore didn't protect them. Excerpts of a couple of things that are in the EA, our fishing time collectively has dropped from 1245 (?) weeks to. . . [Change to Tape 27--lost some in the changeover] . . . ownership of its fleet, and other than that company, the low end of the range is 45% of the vessels and the high end of the range is 86% of the vessels, has some company ownership or control, according to the analysis, so there's been a loss of independence. So, I'd speak to what that meant for the fleet. [Referring to an overhead] Prior to inshore-offshore we had a large fleet of independent boats and a few company boats. The value of the products from a ton of groundfish was about \$444 in the wholesale mode and the exvessel price back then was about \$187 per metric ton, about 42% of the final value. Over time, 1994, there's a little better utilization shoreside and the amount of products generated, their value was up a little bit to \$484. Meanwhile, the price to the fisherman was down to \$170 which is about 35% of the value of the finished products. By 1996, utilization rates were continuing to increase shoreside; the value of the products generated reached \$593. Meanwhile, we were back to the original price of \$187 per metric ton, but the ratio now is down to 32%. So, if we had retained our independence somehow by having the freedom to sell into competitive markets where price is what brought fish to a buyer rather than a mandate, perhaps we might have retained that 42% share of the value of the product and even now getting \$249 per metric ton, which is about a spread of about \$98 million over the course of the fishery. This net result of, well it's correlation I guess, but, as the percentage of company-controlled boats is increased, the potential revenue share has also been decreasing. That could be explained a couple ways. One is that there's a loss of bargaining power when the fleet is in large measure company owned; it could also be explained by the extra value being created in terms of a wholesale price for the finished product, involves some significant cost to produce, so there isn't a net benefit to share with the fishermen; maybe the fishermen are getting all that's really on the table. But if that's the case, it speaks to the issue of net benefits rather than looking at gross sales. But in any case, if it is a matter of reduced price because of reduced competition, the value that the resource could have, that would be in turn taxed, would be significantly higher and

would have been a benefit to both the independent fleet and to the state of Alaska as a tax base. The Advisory Panel recommended that you consider another alternative, Alternative 4, which would be based, if you go back to Alternative 3, it has a bunch of sub-reserves for vessels under 125 feet in the shoreside sector, for vessels delivering to factory trawlers and a mothership sector. If you combine those amounts and provide a free market, free choice sector for vessels under 125, that would go a long way to creating a vigorous and competitive market for the catch of independent boats. The box at the bottom of the table here is looking how that alternative passed by the AP would function with the range of percentages listed under alternative 3 and how they combine. I included in what got passed out to you, a page that also looks at a couple of the other options that were different from a 35/65 split and so there's a matrix of where these numbers could fall out. My personal interest isn't to push for major reallocations and so I've highlighted for you an option that is pretty much based on the status quo, 35/65 split, but you can see how the other alternatives would work. And that's the last slide.

Council questions:

Kyle: Dave, I'd be curious to know, two questions, but first, the AP identified the 125 foot length category as an area to perhaps allocate to. What if up to 155 was included and why didn't you include that, or it just didn't come up, or what would be the impact of stretching that to 155, which is another data point in our document, really.

Fraser: It is the sector under 125 who's suffered the most erosion over time in its share of the catch. The boats up to 155 have been the ones that have been growing in terms of their sector of the catch. If you look at some of the new big boats that have come on line, actually over the 155, too, but like the Alaska Command, it appears that given their packing capacity that that boat alone could harvest 6% of the inshore quota. So, those are some big hitters there and even at the 155 or 150 break, what you don't have in the document is a tankage chart to show you what the packing capacity of various sized vessels might be, but I think if you had that, you'd see what a spread that is. The other factor is, there's been a lot of people in the under 125 foot sector who have been grouching and wanting to maintain their independence, they tend to be more the family owned, sort of partnerships, and what not, and as you increase into the bigger sector, I haven't heard too many of those folks coming forward and asking for market freedom and they're mostly pretty tightly related to their markets whether through ownership or long-term contracts. The one thing I would say is that. . . I was thinking about this later, in the offshore sector and in alternative 3 in your document that reserve is not spelled out as being for under 125, and there's a little bit of catch history by boats over 125 in the offshore sector. I started thinking about that last night and it may not be quite appropriate to exclude them entirely from that, you know, their historic participation there. So, you might set aside a couple percent of that what had been the reserve for catcher boats delivering to factory trawlers as a free choice market for the over 125 boats, but you'd want to relate it to their catch history and in the mothership sector it's almost zero and in the factory trawl sector it's a couple percent.

Kyle: My second question then is, as a representative of the American Independent Fishermen, and knowing what's really looming in the background behind all of this, which is a monster to some and a panacea to others, I notice in the document that the catcher processor sector does not rely on catcher boats when they're fishing CDQ, and I just wondered how you feel about that, where's the future of catcher vessels down the road?

Fraser: In terms of participating in CDQs?

Kyle: Well, or any similar type management regime. As I said, the catcher processor fleet doesn't seem to need catcher vessels to help feed the plant when they're fishing in a CDQ mode, so. . .

Fraser: That's correct, and I think that will continue to be the case. I don't think that vessels participating in shoreside CDQ arrangements actually receive much over their just basic opportunity costs, so that it's pretty much a wash to participate unless you have that vertical integration, whether it's between a shoreplant and the catcher boat or between a self-integrated factory trawl unit. I think there isn't much likelihood that that will change in

terms of factory trawlers with CDQ partners using catcher boats, but I think more importantly to us as catcher boats, if our fish was our fish and we could choose to follow price and where we delivered that fish, I think there would be competition for our fish like there is competition for CDQ fish and that would give us status. I'd just be happy to have that kind of competition and let CDQ be on its own.

Pereyra: Dave, looking at the options we have before us, and of course including this also, and the objective of this option, right now I think, I don't know if my statistics are right, but I think the independent catcher boat portion of the offshore CP quota is somewhere in the neighborhood of 8% of the offshore CP quota?

Fraser: Yes, you've got to be careful how you express it, whether you're expressing it as the TAC, the offshore sector including motherships, or the offshore sector without motherships, and the number bumps around, but .

Pereyra: But we have a range that in our options goes between 9 and 15, which puts the entire range slightly above where they are today. And the question is, if the point that was selected if in fact that option were to be selected, if the point were, say, 50% higher than where it is today and it becomes a fixed minimum, doesn't that automatically create a somewhat competitive environment to enhance the position of the smaller independent offshore catcher boats?

Fraser: Yes. From my personal perspective delivering offshore I would really like that kind of situation so that my catch was of clear value to a factory trawler. I think from the perspective of the health of the fleet as whole, the under 125 fleet, the alternative 4 is better, it does something for everybody, not just for the ten or so catcher boats that deliver to the offshore sector, but if you don't go with alternative 4, certainly the reserve for catcher boats delivering to factory trawlers is something that I'd support wholeheartedly as a fallback, and again, it's our fleet that's been eroded. Some of the guys that started out shoreside have ended up finding that it's been worthwhile for them to move to the offshore sector just because their capacity and size and whatnot, they're just not competitive in the shoreside.

Pereyra: One last question. One aspect of the dynamics in our pollock fishery is not really captured by the document, I think, although it tries to. . . the changes in the negotiating ability of the independent catcher boats in terms of price as this erosion has occurred that you demonstrate here. Given the fact that the offshore catcher vessels are not mutually exclusive from the inshore catcher vessels from price, in fact, probably inshore's the price leader, I think that that's captured in the document, how do you see this evolving. I mean, looking at what's happened, how do you see this evolving over time given the current situation?

Fraser: Well, if we don't change from our status quo arrangement I think it's an ongoing downward slope. You know, it's not that the marketing associations aren't doing a good job, but the whole pie's not on the table. Basically, the crust is on the table in an open access kind of fishery and they're getting what's there to get but there's a lot more that could be there to get. I mean, obviously if we went to ITQ, sort of, in the long-term, there's a lot more on the table because the whole character of the fishery changes, shoreside as well. I mean, they have a different opportunity not to be capital stuffing in the race for fish and so forth, so the pie expands, the filling's on the table as well as the crust.

Austin: Dave, is there any items or information that you think could be put in the report that would help us or strengthen our ability to evaluate this loss of catcher boat independence?

Fraser: Well, the AP went through a process of going through the document in sort of a technical fashion of correcting little line items, asking that various charts be expanded with more detail and what not, and then we also made a laundry list of recommendations. I don't know if. . . I didn't see our own minutes to know if the technical stuff got put into the minutes or not, or if staff just took their own notes on that. Some of the things that we

asked for, recommended was some finer detail looking at the horsepower breakdown, you've got two break points, now, under 1,000, 1,000 to 1,500, and 1,500 and over. There's horsepower up into the 6,000 range, so it would be helpful to see that breakdown. It would be helpful to see a breakdown of the tankage capacity of the different vessel sizes and then looking. . .there's a table on page 80, I think it is, it looks at the percentage of boats that have delivered more than 5,000 tons per year and under. For us in the little market, 5,000 is a decent year. So in order to see, particularly in the offshore sector where catcher boats are delivering to factory trawlers, whether those are just. . .you know, a boat that is a shoreside boat and its primary market that is able to pass a bag now and then to a factory trawler coming out from offload, or a boat that's full-time dependent. You need an extra break point down there. There were a number of things that the AP recommended in that regard and I think it was pretty well covered.

Lauber: Dave, you fished, or do fish both inshore and deliver offshore as well, and can you tell me how the price, you arrive at your price when you're delivering offshore, how that is negotiated or arrived at?

Fraser: Sure, catcher boats in the offshore sector don't have a guaranteed quota at this point, so we're basically cutting off our nose to. . .or whatever the analogy would be. . .if we were to go on strike. The factory trawlers would say, O.K., fine, we'll just catch it ourselves. We've got no leverage. So we're price takers like everybody else in the harvest sector. And, the general trend has been to index the price to about 87% of shoreside and in a relative sense that's a pretty good deal. If you look at what a shoreside boat does, it spends a good percentage of its time being a tender essentially, brings the fish in and, you know, spends a third of the time fishing and a third of the time running and offloading and what not, I don't know, half and half, whatever the percentages are. Well, in the salmon fishery, I don't know what tender contracts are going for right now, but one time they were a nickel a pound, so if you deduct a nickel a pound from the eight cents that they're getting paid, they're really getting paid three cents to go fishing and then they're getting five cents a pound to be a tender is one way of looking at it. We don't do any tendering so we just think we're being paid just for our fish, and in some sense our base price is better than theirs.

Lauber: Your price is basically based upon. . .

Fraser: They're linked. It's a price taker situation and we've got no leverage.

End of questions.

9:04 am Paul MacGregor/Ed Richardson, At-sea Processors Assn. . . I'm here on behalf of the At-sea Processors Association to talk about a subject that's near and dear to my heart. Along with me is Ed Richardson who is a staff economist with APA. I'm going to testify briefly about the analysis and the position of our association as to whether or not this document is adequate to go out for public review. Ed was actively involved in the audit process of the employment and wage data that APA put together along with the pricing information we've supplied to you and Ed has some comments in connection with that. I hope I don't use up too much time on my part of the testimony here. APA supports sending this document out for public review, at least those portions of the document that deal with the issue of whether or not to roll over or extend the inshore-offshore allocation beyond January 1, 1999. It's our opinion that the only problem that has been identified that needs to be addressed at this point is the fact that the current inshore-offshore regime expires at the end of this year. We don't think that it would be a good idea to have a lapse back to an open access system in neither the Gulf or the Bering Sea that would create the inter-sector preemption problems we had before. So, we think that the regime needs to be continued and to that extent we think those portions of the document dealing with an extension of the regime need to be sent out for public review so that the Council can take action in June. With regard to the allocation changes, however, we have yet to see a problem that would justify a switch of allocations and from that standpoint, without a problem that would justify a change we would recommend that the allocation switches not

be included in the document that goes out for public review. This is particularly true in view of the analysis that is in the document and is not in the document. Even if a problem had been identified that would require some sort of allocation shift to address, we don't think that the analysis in the document justifies or would support any such shift. In the first. . . the first reason for that is that there is no cost data in this document. There is nothing in this document that would enable the Council to reach any sort of net benefit conclusion associated with a shift in allocations. We've known that for a long time, at the outset of this initiative we realized there wasn't going to be any cost data and an unfortunate consequence, and despite the staff's best efforts in a very abbreviated time period, we have a document that does not enable you to make the net benefit calculations you have to make in order to justify any change in allocations. This gross revenue assessment that is included in the analysis is not a surrogate for a cost benefit analysis. You cannot draw any sort of net benefit conclusions on the gross revenue analysis that's in there. In particular, there's a very fundamental flaw included in the gross revenue analysis and that is that you can make wholesale changes in allocations from one group that makes a diverse product forms, sells to a diverse number of markets and transfer fish from that group to another group that is primarily a single product oriented producer that sells into a limited number of markets, and then that there will not be a price effect associated with that transfer. If there's a price effect associated with transferring this product around, and we believe there would be, then the gross revenue analysis is wholly inadequate to enable you to calculate what the net impact of that would be. There's no consideration in the analysis of the consumer surplus associated with products that are made for the U.S. market, value-added here in the United States economy and sold to U.S. consumers being transferred into a product that's primarily a semi-processed product and sold to foreign markets for further processing abroad. There's no consideration in the document of the impact that this will have on small entities as required by the Regulatory Flexibility Act. That Act requires that an important stage in the development of regulations that an IRFA be prepared and circulated to the public for comment so that they can identify areas in which their interests are impacted, their interests be small entities. You heard yesterday from people that testified from Icicle, from Ocean Beauty, and from one of the other small independent processing organizations here in this state, concerns that they had about the competitive effect that a transfer of fish from the current system to their major competitors in the shoreside industry would have on their ability to remain competitive. There's no analysis in this document that would help them to make meaningful comments on the impacts the proposed changes would have on their business. Similarly, you heard from Mr. Garvin about the impacts that transfer would have on the spillover effect on other elements of the fleet; there's no analysis in this that would enable you to make conclusions on those impacts either. Finally, with regard to the impacts on fishery-dependent communities, we think that unfortunate that there is a large gap or hole in the analysis that you have available to you in so far as the impact on fishing dependent communities are concerned. I testified about this in December; I testified about it again in February, and unfortunately I'm going to have to testify about it again here. You have two separate documents that are supposed to address the impact on fishing dependent communities, it's not one integrated document. It's two separate documents. One, that's the Impact Assessment's document that looks at Seattle, Kodiak, Akutan, Sand Point, and Dutch Harbor. It presents to you community profiles on those communities. In addition, you have the McDowell report which is an analysis of the linkage between CDQ communities and the pollock allocation. But the McDowell folks did not talk to people other than the CDQ groups themselves. They did not go to Toksook or Hooper Bay, or the communities around the western rim of the Bering Sea to evaluate the impact that a change in allocations would have on the residents in those communities. These people that live in those communities are in fishery-dependent communities and yet you have no way of telling what the impact of this allocation is going to have on those folks. This is important, because it's an area of the state where, as you well know, we have devoted a long time, a lot of money, and a lot of effort cultivating job opportunities for people that live in those communities. And yet you have nothing before you that will enable you to calculate what the impact of costing people to live in Hooper Bay and Tooksook, jobs, from communities that have very high levels of employment; very low median income levels and transferring opportunities from those people to a large community such as Unalaska where you have high levels of employment and very high median incomes. There is a tremendous dislocation and impact on the people that live in the communities that are associated with our operations and it's not limited to the CDQ program. We hire people from those villages that work in the open access fishery, they have good paying jobs on our boats; they

fish not only in pollock but in the whiting fishery as well and they would be adversely affected by this allocation. You don't have an analysis that evaluates that impact. And this is exactly the concern that I had two or three meetings ago when I gave basically the same testimony. I was concerned the way you were going about looking at this; you were going to leave those people out of the formula and unfortunately they've been left out. The map that is on the screen up here [referring to overhead], . . .

Lauber: Paul, if you planning on giving Mr. Richardson any time, he's now got about 50 seconds.

MacGregor: I just finished, sir, thank you.

Richardson: Thanks, Mr. Chairman. [Lauber injects some comments]. . . I'm here on behalf of the At-sea Processors and really on behalf of our controllers and HR people that put the audited data set together for you so you could try to have a better idea of judging the employment impacts of the relative sectors and the gross revenue impacts, 'cause we collected a lot of price data, too. So, I'll just quickly put up this one slide and work from. . . we're working from the employment supplement hand-out. And, there's been a lot of confusion about how do you judge the employment impacts. We've got employment opportunities, we've got a full time equivalent wage rate, we've got the total payroll provided, and it's tough given the data we've able to collect so far to get something that's comparable among the sectors. If you look at your employment supplement and you wanted to calculate the full-time equivalent labor payment for a processor in the offshore sector, you take the median wage payment that's listed there, and this is the 1996 chart, you multiply it by the median FTE time that's listed there and it gives you a FTE labor payment that's about \$24,746. So, the \$24,746 is a quality measurement of the employment opportunity. The tough part is trying to get something comparable on the inshore sector, and I've looked through the document and am trying to get some indicator of the quality of the inshore jobs and there's no data in there yet that can give you that. The best thing I could find for a processor on the inshore sector was the ads that we were able to pull out of the paper and so I've worked the inshore processor example based on that ad. You can see that there, if you work it through, give them 20 hours overtime at time and a half, you get about a \$7 an hour average wage, you work it through the same way, the 8 hours a day at 240 days a week [sic] you get another index of the quality of that employment opportunity, \$13,000. [cut off by Chairman; time was up]

Council questions:

Pereyra: Ed, . . . [Change to Tape 28—question lost in changeover]. . .

Richardson: . . . [portion lost in tape changeover]. . . inshore baseline '96.

Pereyra: The reason I asked that is because I can't read that. . . [referring to overhead]. . . I need glasses.

Richardson: You can get confused, though. The way you can get confused is when people try to mix employment opportunities and FTEs, and if Glenn would share with us his slide again I could point out there how he has confused FTEs with employment opportunities and you can get it right off of your employment supplement. He snuck in an FTE number that's listed on the employment supplement under the opportunities for offshore, but on inshore he's got the employment opportunity percentage. I don't know if it's. . . it's easy to get confused and it's sometimes confusing.

Lauber: You've been teaching him, Paul. Ask a question, he just keeps going. Like that energizer bunny.

Kyle: Ed, if I understand what you've shown us here, this is I suppose the annual value of one FTE working offshore as opposed to one FTE in a similar job working onshore? Is that what you're. . .

Richardson: The audited data that we had was based on experience, so that's history, 1996, those were the numbers. It's not the potential, though. We've had a lot of confusion also because people say, geez, the offshore guys are saying you can make more money, how come it's lower. The reason is, that \$24,746 history includes people that just worked the 'A' season, others that may have just worked the 'B' season, some that may have worked both, and also others that got homesick after four or five days and left, so that's. . .and, I've tried to do this honestly. The median is the best, most honest way to show that, and so, it's not the highest potential, but that's actual history, that's what happened in the offshore sector.

Kyle: So, as I understand you, that's a median FTE in the offshore sector in 1996 versus a median FTE on the onshore sector in 1996.

Richardson: Onshore, I looked in the document; I can't find any data to work with to give us a good idea of the quality of the jobs inshore, so that example I worked for inshore is based on an ad that we found in the paper in 1997, the best I could do, because the data's just not in there.

Kyle: . . .I hope this is a clarifier, not a question. . .I have one question left I think. . .

Lauber: Well, it sounded a lot like a question to me. . ., but. . .

Kyle: I yield.

Benton: Paul, you mentioned employment in the CDQ communities and I would assume that you're familiar with the conditions under which that employment has taken place, your long experience. The employment for the companies involved in CDQs, is that not a requirement under the CDQ contracts?

MacGregor: In some it is, and in some it isn't. And, to the extent that it is, we hire people from the CDQ communities to meet the employment goals and objectives of the programs. But, Dave, we don't stop there. We hire people out of those communities over and above the CDQ requirements and the people that are on our boats in connection with our CDQ operations also stay on the boats in the open access fishery, and to the extent that our open access fishery allocations are affected, it affects the jobs and employment opportunities that we afford the people from those communities. That's the map up here, the red communities are the places from which we hire.

Benton: Paul, I'm looking at the data that's provided by APA, and when I look at it, and I'll just use 1997, I see that. . .and I'll use the preferred method used by the Department of Labor which is PFDs, and it's 293 Alaska resident total employees in 1997. So if I understand what your. . .I guess these are public comments, not public testimony. . .if I understand what you're saying correctly, is that that's. . .and these are numbers provided by your office and through your process. . .the total employees were a little less than 300, and when I look at the breakout of information that was provided by you I see that a lot of them are from, in fact probably the vast majority of those, are from CDQ communities. And, what I'm really wondering, so, if I understand your answer correctly you're saying that the folks that are here are both folks that are from contracts under the CDQ program and people that are not under contracts from the CDQ program, including people from these rural villages, and I added up one CDQ company's employment in 1997, again, from one of the CDQ companies that's affiliated with a company in your association and they are partners in a couple of factory trawlers in your association and the grand total in 1997 was 25 individuals. So, I guess, my question to you is, and maybe you cannot answer this, I don't know, is were those individuals, were all of those subject to the CDQ contract or some of those individuals also independent hires from some other company not subject to a CDQ contract.

MacGregor: That's a hell of a question, David. I don't know. I would suspect that if they were hired. . .I really don't know; I couldn't follow the question, basically. I mean. . .

Benton: Well, let me be a little clearer, please. What I understood you to say is that out of the 293 people that your office identified, and looking at the information you've provided, looks to me like, and I haven't added the total up, but the vast majority of them come from CDQ-related communities and if I understand you correctly, not all of those people came because of the CDQ contracts, O.K.? So, I looked at the villages associated with one CDQ company in particular that has a partnership with a company in your association and they own half of two factory trawlers and I added up the hires from the data that you provided and those hires in 1997 totaled 25 individuals. So my question is, were those . . . because of what you said about some of these people might be from the CDQ contracts and they might be hired independently by somebody else. . . my question is do you know whether or not those hires are solely from the CDQ arrangement, or are some of those hires not even from the CDQ arrangement, but maybe from some other company that hired people from those villages because they were out doing rural hiring. And, if you don't know the answer, that's fine, but . . .

MacGregor: I think Ed, who was involved in the audit process can perhaps respond to that.

Richardson: Just to make a quick clarification. After talking with ADL, and I provided them the data, because of their lags in the way they compile the PFD files, for 1997, perhaps the best indicator of Alaska residents is a combination of PFD and drivers licenses and that gets us closer to the opportunities we thought we had. And, some of those opportunities are not CDQ partner hires. They're people that are hired at job fairs in Anchorage and other towns around the state.

MacGregor: Part of my confusion is still in the question that Dave asked, other than the numbers completely threw me off. All of the coastal communities in the Bering Sea area are from CDQ groups. If you go to Hooper Bay to hire somebody, Hooper Bay is a CDQ area; all of the communities are, so you can't hire in Western Alaska without hiring somebody from one of those communities. Whether or not the hire is associated with a CDQ contract is a different question. We have people who are not CDQ partners in our association. They hire out of those communities as well. We have some companies who are CDQ partners in one region but hire out of other regions as well. It's real hard to distinguish our hires I guess from CDQ-related communities because they are all CDQ-related communities. The hires are not necessarily CDQ-related, however.

Pereyra: I won't try to clarify my previous question, but I would like to know, in your previous statement you made, that you wanted to see this document go out, I was confused. Do you still feel that the mothership sector is properly characterized by the document as it is presently configured, or do we need to do more work on it?

MacGregor: Well, I guess given the focus that the mothership group has come into here it seems to me that the document is lacking in a couple of fairly critical areas. I don't think it would be very difficult to fill in those areas, though, and . . . For example, on ownership, when I read the ownership information about the motherships I was surprised to see the ownership identified as one of the vessels having foreign ownership and the others being U.S. owned. Well, there's some pretty important facts associated with how these motherships operate that should be included in there. For example, the vessel Excellence, which is the mothership operated by Supreme Alaska Seafoods. That is a U.S.-owned vessel, it's true. It's owned by a company called Alaska Joint Venture Seafoods, AJVS, but that boat has been bare-boat chartered and operated by Maruha under the auspices of Supreme Alaska ever since the boat came up into the North Pacific, it's part of Maruha's surimi production strategy in Alaska. You would not know that reading the analysis. The document shows that the Golden Alaska is a foreign-owned vessel. It doesn't tell you that it's Nichiro, one of the Japanese surimi companies that owns that vessel, and it doesn't indicate to you that the Ocean Phoenix is financed by Nissui and that that vessel has marketing agreements with Nissui in Japan. So, what you have is the entire mothership sector is actually an extension of the Japanese-owned shoreplant facilities and is part of their raw material acquisition strategy. That's important, that's important because it plays into this vertical integration issue and the downstream loss, if you would, or leakage, of opportunities for U.S. products if allocations are taken away from the catcher processor fleet and transferred to surimi production facilities. These vessels are also very mobile. I think the testimony they've given

you is that they go down to the whiting fishery, they take their catcher boats with them, one of them is a big cargo vessel that regularly goes to Japan to deliver its cargo, it doesn't offload in Alaska very often. I think the information, in fact I know that the information regarding the amount of leakage of that vessel is publicly available. We've actually done. . . asked a freight expediter to provide for us information about the quantity of product that vessel has taken to Japan over the last five years and I can provide that to you. It's a pretty good total, I think, of the amount of tax leakage associated with that vessel. That's available. That kind of information I think should be available to you. And, one further thing I would like to say, Mr. Chairman, Mr. Reed suggested that the motherships and members of his coalition were willing participants in the landing tax assessed in Alaska and that they had not been involved in the legal challenge. Nothing could be further from the truth.

Lauber: . . .Some members. . .

MacGregor: Some members, that is correct.

Lauber: Any other questions of Paul? I couldn't help but think that before that last question there may have been a gap in our records but you certainly were able to fill that, so now I think now it's ready to go for public comment. O.K., that concludes the public comment. . .

End of public comment.

[Break]

NPFMC Discussion
Inshore-Offshore 3
April 24, 1998

NOTE: To save time and space, the formality of seeking and receiving recognition from the Chair, and addressing the Chair at the beginning of each statement, has not been transcribed.

Tape 28

Lauber: This Council is back in session. Mr. Mace, you have the floor.

Mace: If we're ready for a motion I'm prepared to make one. I move that the inshore-offshore EA/RIR for Amendment 51/51 be sent out for public review with the provision that modifications recommended by the SSC and the AP be incorporated subject to the ability of the staff to complete such modifications within the time frame required to meet the June meeting deadline for final action.

?: Second.

Lauber: It's been moved and seconded; speak to your motion, Mr. Mace.

Mace: I think we've had quite a bit of discussion on the analysis, a lot of favorable comments on it. The SSC has given us a scientific review, the AP has given us an industry review, and I think that we need to start with that as a blanket motion with the potential amendments based upon what we've heard from the public. I think that we need to get this out. I would suggest that we might visit with Chris Oliver and the rest of the staff regarding their ability to complete these modifications within the timeframe. I guess you've two weeks to do that, but . . . with that, Mr. Chairman, I'm finished.

Austin: I wonder if the maker of the motion would entertain a friendly motion that would include in his motion the recommendations of the SSC.

Mace: I did, the motion did.

Lauber: The motion did.

Austin: Did he? I'm sorry, I didn't catch that.

Benton: Point of clarification. . . with regard to the recommendations on the McDowell report, the AP had a set of recommendations and the SSC had a slightly different take on their recommendation. Is it the maker of the motion's intent that what would take place is that, as time allows, the analysts would take into consideration the kinds of questions that were raised by the AP but do them consistent with what the SSC recommended?

Mace: Yes, it is. I think the key point is " as time allows, " Mr. Benton, depending upon the staff's ability to accomplish it.

Benton: O.K., Thank you.

Pennoyer: We're going to discuss any amendments required and I guess I don't understand a few of the AP items and maybe right now I don't think they're necessarily even possible. We heard some discussion this morning on the possibility of an alternative 4 allocation scheme, and I looked at the AP recommendation, and I admit when I first looked at it I didn't understand what it meant, but if you go down to . . . the percentages given are more or less within the range of discussion of analysis we've already conducted; namely, set asides for catcher vessels of under 125 feet, 40 to 65% of inshore quota; 9 to 15% of the offshore quota, and then it goes up to 100%, or the

true mothership quota which is a little different than what we analyzed because we went up to 65, but the kicker is the next sentence, 'The catcher vessel set aside may be delivered to any sector, and that seems to me it probably changes the whole allocation scheme that's in front of us by a very considerable amount, potentially. I'd like staff to comment on. . . I know time allowed, but I don't want people to have the impression we're doing things that we end up not doing and then for us to get criticized for not doing them, come the June meeting. I think this one is not very possible and I'd like Chris to comment on that.

Oliver: It is a significantly different twist, if you will, on the alternatives that you already have in the document. It essentially establishes off the top a guaranteed portion for the small catcher vessels which they could deliver anywhere. For example, if you took the midpoint of. . . just some rough calculations we've got here, if you took the midpoint of each of these three bullets, the 40 to 65%, 9 to 15, and the current range for the motherships, what it would result in is right at 34% of the total being set aside for that sector which could be delivered anywhere and, of the remaining two-thirds of the pie, that would have a guarantee, onshore guarantee, offshore delivery designation which, again, based on the midpoint would be right at 50% for the catcher processor fleet and 16½% onshore. Now, obviously some of that 35% that's originally set aside would end up being delivered on shore, but there's no guarantee. So, what you end up with, when you put together a matrix of the different possibilities here, there's some alternative allocations that are potentially significantly different. What we can do, and what I had told the AP was all we could do with regard to this, is not re-do in any significant analysis, but lay out for them a matrix of what the resulting percentages would be and some discussion pointing them to in the document where they could find information that's relevant. A lot of the baseline information would still be relevant, but it wouldn't be a wholesale reanalysis and I think you would be in a position then in June to determine if you wanted to go this route, whether you had appropriate information in front of you. But, it definitely is a significant change.

Pennoyer: I think what Chris said is we'll do something; it probably won't be as much as you might want for a significant allocation change, you've got to make up your mind in June if you think it's enough. I guess that's what he said.

Pereyra: This is a question directed to staff. In your. . . modifications to the document before it goes out, will you be having any discussions with either the authors of the McDowell report, which I understand is an ADF&G activity, regarding this issue of the relative value of jobs in the western Alaska community sector. In other words, the relative value of jobs that are in communities where there are significant onshore plants versus the value of jobs in communities where there are no onshore plants and what the impacts might be of an allocative shift. I know you can't do anything qualitative. But we had some discussion yesterday the possibility of having at least some qualitative discussions on that. And, I think it was either [with] regard to Appendix 3 or Appendix 2, but I'm not sure which one. It might have been Appendix 2. That would be helpful. I know we had a fair amount of testimony from people that were concerned about that issue.

Oliver: I guess all I can say in response is I think between both the information that's provided in those reports along with some employment information that we provided, supplemental document, there is information on values of jobs. Now we haven't made an explicit comparison and then attempted to say if you change the allocation by whatever percent you could expect it to be. . . we could assume a strictly linear relationship there and equate some job value with the change in the allocation, but I don't know to what extent we would be able to get the McDowell report or the Impact Assessment folks to explicitly look at that. I know in my conversations with Impact Assessment they have indicated the ability, just barely, the ability within the next two weeks to respond to the SSC comments and to get those incorporated in the document. So, I'm just not certain I could say we would be able to make it explicit.

Pereyra: My concern is that several meetings back when we were discussing what was going to be done for this important decision, that issue was one which was highlighted and it was my understanding that that was going to be addressed at some level and it hasn't been yet and I think that whole integrated function I think one of the

shortcomings of the document in some other areas, but this one in particular I think is important because the job issue is one which has been critical to our decision.

Benton: On this subject. . .this is wasn't what I. . .earlier.

Lauber: No, you're third in line, but you can respond to this.

Benton: The McDowell report was, at least the funding went through our shop. I think in response, Wally, what I would ask is that immediately after we're done with this meeting that Chris confer with McDowell and maybe some folks over at the state just to see what we can do to amplify or complement the information. I think Chris is correct in that the information actually is available; it's not been put together in a manner that maybe you're looking for. And, between what's in Impact Assessment's, Department of Labor data and the McDowell report, I think that some information could be synthesized down and I think there may be some ideas out there how to do that.

Pereyra: Again, I realize we've got a short timeframe and maybe you can't do very much but at least identify it. Another issue that was discussed, and that had to do with the issue of fish meal and the bone meal on shore issue that was totally missed in the analysis and I don't know how that can be picked up. I think it has to be picked up at least in some qualitative way. Reference to Table E-2 and in Chapter 3, and I want to highlight that as an area of particular concern.

Braman: I will check with the people who put together the core report and I will check with Dr. Steve Freese to see if we can provide any additional information on that question between now and when the report is sent out.

Kyle: Chris, I'm curious, I may want to make a friendly amendment, but would the analysis you'll have before us in June, would we be able to say, make a decision on an allocation to vessels up to a certain length in the CVOA, much like the AP did, say at 155 feet, or would that need to be in your judgement an amendment to the motion that incorporates the AP recommendation of 125 feet or less. You use under the definitions of catcher vessels, those less than 125, those 125 to 155, and those over 155. Would we have the information in front of us to possibly do a 125 to a 155 allocation? Or, do we need to tell you to do that if it's the will of the Council.

Oliver: I guess I'm not sure I understand your question. To make an allocation to, or was your question with regard to specifically item 6, about exclusion of a vessel from this class from the CVOA?

Kyle: Well, I was really looking at seven, 'establish a new alternative 4 which would provide a set aside for vessels less than 125.' Will we have the information available to do that at 155, say between 125 and 155, as well as below 125, or do we need to make that a friendly amendment to the motion if the maker would accept.

Brannan: I think we have provided that breakout in the document, looked at both 125 and 155 in terms of. . . One caution, and it has to do with allocations by vessel length, is that NMFS has informed us that because of the way they collect data that we couldn't enforce that type of allocation at the beginning of inshore-offshore 3, and that may. . .the Council. . .[Change to Tape 29; comments lost in changeover]. . .

Oliver: . . .[Comments lost in changeover]. . .the point about the 1999 implementation versus 2000, and that would go for whether you use 125 or 155. All we could do in terms of this alternative 7, is include that breakdown in the. . .[unintelligible]. . . It's a different data aggregation, a different subset, it would be a different set of tables. I don't think that poses any huge problem, but again with either one of those, it's not going to be much of analysis. It's going to be a table of resulting percentages if you do.

Kyle: If I may, then, I would ask the maker to accept a friendly amendment to also include a set aside for 125 to 155 so that we could take a look at that in June.

Mace: Accepted.

Lauber: It's been so accepted.

Pautzke: Joe, is that a separate set aside from the set aside for 125 and less, or are you talking about all catcher vessels less than 155? Do you want it divided between two vessel size groups?

Kyle: Well, it's my understanding that with what we would have before us we could do either or, we could do less than 155 or less than 125, or nothing.

Oliver: The way we have it now, we could set up a matrix of tables that illustrate the effects, percentage wise, if you do a set aside for the less than 125. So, you would want to see another set that was a set aside for only the 125 to 155, or everyone under 155? I assume the latter?

Kyle: Well, yes, everyone under 155 so then we could draw the line there if we chose to, or draw it at 125, right?

Samuelson: Just a follow-up to Mr. Kyle's friendly amendment there. How would we break out the 125 bracket from the 155 if they're all lumped together in the analysis?

Kyle: I think the staff has already done that for us in how they've put definitions to the catcher vessels in the analysis. They've defined catcher vessels as less than 125, as 125 to 155, and over 155. So, I think it'll be there.

Samuelson: I'd like to offer a friendly amendment to the maker of the motion. In the second to the last paragraph on the second page, on the AP motion, I'd like to delete, 'to the extent practical, Council staff monitor the,' and put in there 'recommend.' It's right under the number seven item. It says, 'Further, the AP would like to highlight to the Council that the impact on CDQ employment and wages are a very important part of the analysis. . . .' I'd like to put 'recommend' in place of 'to the extent practical Council staff would monitor the program.' I think that we've heard through public testimony as well as from the CDQ regulators, Glenn Haight, that they recognized differences with the CDQ groups in the McDowell study and that they're moving forward to correct them. I don't feel that the Council staff, due to the time limits, should be looking over the State's shoulders as these revisions are being made to the document at this point in time. I think we've pretty well explained our differences.

Pautzke: I don't understand. If you put in 'recommend', for 'to the extent practical' it's almost like you're asking us to do it. You want us to monitor. . .

Samuelson: No, I want delete 'to the extent practical Council staff monitor.' I'm taking the Council's action out of there. . .

Pautzke: Oh, and you just put in 'recommend,' . . .

Samuelson: What, we're going to do as a Council, we recommend that if revisions are needed to the McDowell group, that that be revised and brought back. I personally feel that the Council staff has enough to do and they don't need to be looking over the State's shoulders at that point in time.

Pautzke: . . .[unintelligible]. . .

Lauber: O.K., so it would then read, if I'm correct, 'Further, the AP would like to highlight to the Council that the impact on CDQ employment and wages is a very important part of the analysis and, recommend the revision to the McDowell study to ensure that as much information as possible be available to the public and Council review.' Is that correct?

Samuelson: Yes.

Lauber: O.K., is there any objection to that?

Mace: Robin, what you're saying is this is going to be less of a demand on the staff with this? I'll buy that. O.K., I accept it as a friendly amendment.

Austin: Does the McDowell study become a Council study? I mean, . . .

Lauber: It becomes part of the record.

Austin: It becomes part of the record but it's not, quote, unquote, a Council study; it doesn't pick up our. . . I'm concerned that in fact the final product, the Council doesn't even get to see it and yet it picks up our name. But that isn't going to be the end result of this?

Pautzke: It's just an annex or appendix to our formal document. It's all part of the record and it will be submitted with the record to the Secretary of Commerce.

Austin: It maintains its independent identity.

Lauber: And, it will go out to public review.

Austin: Yes, all right.

Benton: Chris, I too am a little concerned about the amount of time you guys have available and I remember some questions that we asked when you were here before public testimony. With regard to, looking at the AP motion, with regard to item number five, which has to do with the true motherhips. I recall that I asked you between option 1 and option 2, which one of these would be most difficult to analyze and as I recall it, you said that option 2 would be quite difficult and require a lot of time. Is that correct?

Oliver: Yes, that is correct in the sense that it puts us in the limited entry consideration context. Noting that what's not listed in the AP motion is your existing option which is the most. . .

Benton: I was going to get there. What I'm trying to do, and I guess in part we're going to have to ask Counselor, but I understand that there's a problem with the existing definition, and I'm just thinking of this in terms of your ability to get an analysis done in a couple of weeks. Option 2 it seems to me is. . . the search you'd have to do would have to be quite broad and would probably complicate your analytical process and if I understand it right, you said yes to that. Then, if I turn to our Counselor for a minute, what part of the definition under option 1, helps us avoid the problem that you have, at least for this part of the ball game with the analysis, with regard to the limited entry problem for the motherhips? Does option 1 satisfy your concerns, Counselor, or can we even narrow this down a little bit more?

Lindeman: I don't see a problem with option 1 with respect to creating a. . . the limited entry problem I think is taken care of with option 1.

Benton: It would be taken care of with option 1? [affirmative response] O.K., . . .if I could follow up on that? To the maker of the motion, then, I would propose as a friendly amendment that we drop option 2 under number five of the AP recommendation and the reason I would do that is we can address the concerns, the legal concerns raised by Counselor with option 1, and we could save our staff a considerable amount of time by dropping option 2. So, I'd recommend deleting option 2.

Mace: If it's going to save time, I accept that, yes, I accept that as a friendly amendment.

Pereyra: I had two short issues. One of them has to do with. . .this may be embodied in one of the motions, I've got too many pieces of paper floating around here, but. . .and this is to the staff. We had some discussion and we had some testimony regarding the competitive impact to non-pollock processors and I was wondering if that could be picked up, at least in a qualitative sense?

Oliver: Are you referring to what we call the potential spillover effects into other. . .

Pereyra: Well, in a generic sense, certainly spillover would be a subset of that, it is a spillover effect. You can think of spillover in the effect of the presentation that was made by Mr. Gauvin, which is spillover into other fisheries from effort going into other fisheries. This is a spillover effect into the marketplace, I guess you could call it that.

Kyle: I wonder, Dr. Pereyra, if you're including the Gulf of Alaska in that. Those companies all operate in the Gulf and we really didn't get any public testimony from the Gulf on this package before us right now, so I wonder if you would be including spillover effects in the Gulf?

Pereyra: Well, I think these particular individuals that testified to us identified themselves as having operations that went from Nome to Ketchikan, in fact even farther south than that and I think their concern, if I read it right, was that by making competitors in the marketplace stronger at their expense really puts them at a disadvantage, so I would think that that certainly does have a Gulf of Alaska impact in an indirect way. So, that would be my answer to that.

Benton: What I heard being said by that group was that they also recognize that the Council may not have the ability to do that at this time and they wanted to have a program put in place that would track any effects of concentration in either inshore or offshore as a result of any allocation decision. Status quo would be one of those allocation decisions. And, I guess my concern with what Dr. Pereyra is pointing out, I think it would be very useful information and I support collecting that kind of information. I don't think we have it, but I'd point out that a couple of those, or at least one of those fellows identified that they've got operations in California and Oregon and Washington as well, and the scope of that would be I think prohibitive from a staff standpoint, especially seeing as how we've got only a couple of weeks to get the document done, and I didn't hear them say that they think that that's something that needs to be analyzed in this analysis. They said quite clearly they were not taking sides, they were not making a recommendation, and they did not want to delay getting the document out for public review and delay this decision.

Pereyra: I agree with Mr. Benton's recollection of the testimony that was given. My concern is I don't want to see us doing an ostrich number here and sticking our head in the sand. I just think it needs to be identified. It would probably take a few minutes to write a few sentences or a paragraph that sort of just captures it and might even make a statement that as Mr. Benton pointed out, that this is beyond the scope of analysis at the present time but is something that might be looked at in the future. That's all I wanted to say.

Behnken: I think Mr. Pereyra's raised a really good point. The AP motion that Mr. Mace has moved does include a section that talks somewhat, I'm sure it'll be qualitatively, but about some of the spillover effects. And, I think

it would be a really good idea subsequent to this action on inshore-offshore that we talk about what we can do to collect that data. I don't think it needs to be wrapped into this, but maybe something we take up after we vote on this motion.

Pautzke: It seems to me that some of the best way to collect this type of information so you would have it before you at the June meeting is to encourage and highlight in our circular that we send out with our document to public review, if you want, have some questions in there on these spillover effects so that when the public comes in, like Icicle Seafoods, or someone else, they can speak to that issue which becomes part of the record and it's very easy to collect that information and be informed by it during the public review process, because the staff is not going to have the time to go out and collect anything in detail on it, but certainly you could find some testimony out there on it very compelling if we just highlight those questions you want additional information on when we circulate this for public comment.

Pereyra: When we had the discussion on the motherships, there were a couple of issues that came out but I think need to be captured. Again, they may not be able to be captured in a quantitative sense, but they should be captured certainly in some sort of a qualitative sense. One of them has to do with this tax leakage issue. I think Mr. Reed this morning concurred that that is something that would be useful to have separated out. At the present time it's totally included in the offshore sector and I certainly respect the statements that were made by staff that this might be difficult because of the limited number of participants, but I would hope that maybe it could be noted in some way in an expanded way in the narrative section. If you can't do anything quantitative on it, and I recognize the short time and fact that you've got a potential limited participant issue with that.

Lauber: How would they do that? My recollection is that staff attempted to do that and that the state Department of Revenue refused to give the information because there were less than four, or some number, whatever their criteria is, and they wouldn't give it. So other than anecdotal information or dockside talk I don't know how would . . .

Pereyra: Well, I think your comments are consistent with my request, and that is that I think that where we can't pick it up quantitatively we can, I think note it in the qualitative sense in the narrative. I think that would be helpful to alert people to that effect. And, the last thing that I had was, there was also I think some testimony given that I think pointed out the mis-characterization of the ownership relationships in the mothership sector and I think that definitely needs to be corrected. I think that is a mis-characterization that needs to be corrected in the document. Those are the last comments I had regarding the document and I only had one other comment I want to make before the gavel goes down.

Benton: This is in regard to the point that Dr. Pereyra . . . We have the information in the Department of Revenue. Part of the problem is confidentiality issues. I can tell you that it doesn't make that big a difference; it makes some difference, but not that big a difference. What we'll do, is we'll go back and see if there's a way we can aggregate the information, or Revenue can aggregate the information, and make it available for inclusion in the document. I'm not confident we'll be able to get past the confidentiality issues, but we will talk to Revenue and we'll work with staff to try and see if there's a way we can get that information into the document in a manner that will be useful.

Pereyra: I appreciate that.

Austin: I had two questions. One of staff and of NOAA Counsel. When Mr. Fraser was testifying I asked him about whether there was additional information that could be put in that would strengthen the analysis of this question of catcher boat independence and he indicated that in the AP process they had sat down and went through the document with you in a lot of detail and they had made numerous recommendations to different tables and stuff that weren't captured in the bigger picture AP motion. And, I just wanted to confirm that in fact, and

he thought that would help what I'm talking about, and I just wanted to confirm the fact that that sort of detailed addressing of this would be handled by the staff.

Oliver: Our response to those items that don't show up in the AP list was in most cases, yes, no problem, that's something we intended to do anyway or it was a technical correction. There were a couple items where we had to say, we think we can do that, we'll do our darn best to, depends on data availability through our National Marine Fisheries Service counterparts to some extent, but I think we're in pretty good shape on that. I think we'll be able to do most all of that.

Austin: Including the tonnage question? . . . Tankage, I'm sorry.

Oliver: Oh, tankage. . .

Brannan: It may be possible to do that. I can't make any promises, but on some of the vessels in the CFEC registration file there is information on tank size and capacity. It's not required that they fill that out, so I couldn't tell you if I'll have a complete data set, or the accuracy of the information, but it's possible that I could go back and try and look at some of that. I can't guarantee that I will have time, though.

Austin: My second question, to NOAA Counsel. We have added a lot to the staff's plate and I'm constantly amazed about the productivity of Clarence's staff. . . I think there's going to be a long list in wanting to hire all you guys if you're not burned out, you're really putting out a tremendous product. But there's a point in time when the proverbial straw lands on the camel's back and the camel falls. And, I want to make sure that we don't have the option of any further delay in releasing this. What happens if in fact the Council does not release this public document at this time relative to the sunset clause of our inshore-offshore allocations. Do we have to release the document now?

Lauber: Dr. Pautzke will respond.

Pautzke: We are going to wrap this document up and in ten days it's going out of the office and if not everything's in there, people are just going to have to testify for it, there's also an opportunity to enhance the document, add information that comes available in the public record after the June meeting before it goes to the Secretary of Commerce, because it goes through a whole other public review. But in ten days it's going to be out of our office and that's it. It's not going to be delayed by anything that's going to be made in your motion unless you tell us to delay it.

Austin: Well, that's my point. If the Council votes not to release the document, I mean, is that truly an option we have. Or we have no option, the document must be released. . .

Lauber: The answer to that is that is an option.

Pennoyer: The consequences of not releasing anything is probably not taking action in June. The consequence of not taking action in June is that the inshore-offshore allocation that's currently in place goes away next year, So your question, not releasing the document, or not releasing all of the alternatives. . . I, mean there are a lot of variations on that, but you've got to release a document to be able to take action in June. You've got to take action in June to be able have something in place for 1999. Otherwise, the whole allocation scheme is ended and you're back to open access for the whole fishery.

Austin: That's what I wanted to know, thank you.

Pautzke: I've got to clarify. . . I'm a little unsettled about the ownership statements that were made here. We did not have any formal data collection process to . . . there's a list under the foreign ownership thing and a lot of that information is very tenuous. We went through Lexus Nexus and that's pretty much open information and we gave each company a chance to review. . . I mean, we had some information from the state, then we tried to enhance that information by bringing in information on each vessel, plant, motherships, so on, from Lexus Nexus. And then I decided to go through the next step which was, 'here is the picture we have formed about your vessel or assets, and this is what we're going to tell the Council unless you correct it.' And, as you go down those lists you'll see an asterisk, I had an asterisk put in there if we had a response so you know that that has company taken an active role in responding to us and telling us what the ownership of their vessel was, and then we had public testimony here that, well, yes, on the surface that vessel may be owned by a U.S. corporation or something, so therefore it gets a 'U.S.' check next to it. It's fully chartered out to deliver its fish to a certain company, Maruha, or whatever. There may be a lot of other vessels that are in the same thing where they show up as being totally U.S., but they are, through some kind of a legal arrangement, business contract, or whatever, they're furnishing all their fish to a particular plant or operator which may have foreign ownership to it. And, I guess for us to take. . . I'm trying to come to a consistent way to treat all of these things rather than taking, say, public testimony and then saying well we need to highlight 'x', 'y', and 'z' mothership vessel out there on the basis of public testimony, not by that particular operation but by someone else on what their pattern is and how they're influenced by this foreign ownership or management or intervention of some sort. And, I guess I'm looking for a little bit more guidance on that than what we have right now, which is this is spurious information you have in your document on the mothership; they may be owned by U.S. corporations but we know actually what they're doing here. I feel like it's inconsistent with the way the rest of the information is presented in the table. . .

Lauber: We've been wrestling with this issue, and let me say staff has made a very sincere effort to work this through and get the best information as Clarence reported. We paid for I don't know how many months of Lexus Nexus. We devoted a tremendous amount of staff time with that and other types of research and you just recounted all the other things. I don't know that we're ever going to get anything that everybody is going to either accept or sign off on and so forth. I think we've gone about as far as we can go and as far as I'm concerned let's let the Vikings and the Samurais fight it out and we'll . . .

Mace: Call for the question.

Pennoyer: I had one additional item. On the AP recommendation, there's a request that the Council write the Congressional delegations requesting increased funding toward Steller sea lion research. I'm a definite proponent in getting more money for research into this difficult ecosystem management question, but I'm not sure it's appropriate for the Council to be writing Congress directly to lobby for funds, so I'll probably have to abstain from that one particular recommendation just as a normal process even though I certainly agree with the need for more research. But given you're going to work that out however you need to do it, I think the inference that you need to write to somebody and let the need for that additional research be known is fine. I'm just questioning the direct request.

Pautzke: I would recommend then, if there's a problem with this lobbying thing, is that we do what we have numerous times in the past. We write to the U.S. Secretary of Commerce and copy the Congress. No one has argued with that approach before.

Lauber: That all right, Mr. Pennoyer?

Pennoyer: Let it be known I have to abstain from that one sub-piece, but I'll vote for the rest of the motion.

Lauber: O.K., we'll recognize that. Now, let's see if we've taken care of all the issues here. Now, let's go into final debate and move this thing out.

Austin: I'd like to speak on behalf of the motion. I think the Council is in a position where it doesn't really have a large choice in this matter and that whether the document is sufficient or not, it's the best we can put together at this moment in time and it needs to be released for public comment. We knew when we were going into this that we would not have a net national benefit analysis and that's what we don't have now. So, that shouldn't surprise. It causes me a lot of concern but a total loss of sunset, loss of this, would be a lot more disruptive and for that reason I think we must release the document for public comment.

Pereyra: I share Mr. Austin's comments and concerns. But, in addition, I'm also, after hearing the testimony, after reading the information that's in the document, I'm even more convinced that the problem we have is we need to somehow take care of the fact that inshore-offshore expires at the end of 1998. That is the problem that we're dealing with and I think that the rest of this. . . [Change to Tape 30]. . . I think is an enormous fish grab. I don't think it is supported at all by the data. I think it's put our industry at each other's throats. I think it's been very destructive from that standpoint, and I'm disappointed, I'm very disappointed. I know we have got to go through this process because we started it, but as far as I'm concerned I don't see really a huge problem here that we're dealing with in terms of one industry somehow preempting another and so forth. What we need is stability in our industry, particularly right now. This industry, people that are in it know this, this industry is having very difficult times now, whether you're in salmon or blackcod, or halibut or whatever and if you're dealing with Asia, and a lot of our industry does deal with Asia, this is a very difficult market to be dealing with right now and I think we're going to see repercussions coming down here that we don't even know about at the present time. And the instability that we create by going in this direction, I think, is destructive in the long term. . .

Lauber: Let's keep our comments germane to the motion. Next name is Benton.

Pereyra: Mr. Chairman, I hadn't finished my comment. You said we were going to have time to. . .

Lauber: You wandered off the motion on to debating actually the merits. . .

Pereyra: I was leading up to the fact that I was going to support going out with the document but I also wanted to make the statement regarding the testimony that we received. A lot of the testimony that we received will not be able to be re-heard in Dutch Harbor and the reason being that there is not sufficient for people to come out there and I talked about this till I was blue in the face and people just seem to shrug their shoulders. But that is a fact. We've had people come up and testify before us that they aren't able to get out there. For that reason, I seriously want to have before our meeting in Dutch Harbor, I want to have some sort of a summary of the comments that were made at this meeting, in our book, and available for people to see that are out there in Dutch Harbor. I think it's very important that we have that part of the record included and I would hope that that would be something that we would have to take with us to sort of help, I think help to mitigate this particular issue, and I think this is a serious one, so I would hope the Council could go along with this and I hope it would not impact staff too much between now and June to do that. Thank you.

Benton: I too want to speak to the motion, but in response to what Dr. Pereyra has just said, maybe what we need is a set of transcripts, maybe that would be the easiest for the staff is just have somebody do a set of transcripts and have that provided. I want to speak in favor of the motion. I think that the analysis that we have before us is, given the time constraints that we have, actually maybe more than what some of us expected we would get. Certainly there are things that we would all like to have; that's always the case. I think that the information that we have fits well with our problem statement. I think that it will allow us to look at our problem statement and look at the issues before us, one of which is the expiration of the current inshore-offshore amendment. But there are other issues that are before us as well and they're framed within the problem statement. And, as Clarence has identified, the document is going to go out. His staff is going to make the improvements that they can and I think when we see the document when we are in Dutch Harbor I think we're all going to keep in mind the testimony we've heard here today but also what we heard back in June in Kodiak and at every other subsequent Council

meeting between that meeting and this one. We've heard a lot of testimony and we've seen a lot of facts and information all of which is in the record, so I would speak in favor of moving the document out. Thank you.

Kyle: I would just like to speak in support of the motion and say that I am surprised at the amount of information that staff was able to compile for us. I guess my expectation was we may have to narrow down some of the alternatives that are available to us at this meeting, but I think the whole wide range of alternatives are still open and because of the job staff did and I just want to again commend them for doing a super job and it's going to be fun in June in Unalaska.

Samuelson: I'd like to know your definition of fun. . . I'll be in support of the motion. I also have to commend staff; they sure gave us enough to read for this meeting. In fact, too much. I guess from my perspective I was pretty disappointed in the public testimony process. I thought it would be more germane to the document and to the AP's comments and it seemed that a lot of spin doctors, I mean testifiers, that testified were hell bent on throwing trash at different sectors of the industry, and vice versa. My preferred alternative would be that the industry sit down and come up with a negotiated settlement with all affected parties. I've always felt that fishermen know their fishery better than the regulator, whether it be this process or the Board of Fish process. So, I'll support the motion. My message to all sectors out there is, this is your final chance to settle this issue. I've read every document that was sent out by staff, I listened to public testimony. After public testimony in June I will make my decision and I could guarantee that that decision will not be influenced by the offshore sector, it will not be influenced by the onshore sector. I will be influenced by a number of factors that I'll take into consideration at that time. This is their final chance.

Lauber: Are there any other comments? Are you ready for the question? Is there any objection to the motion? Hearing none, it passes. I would state that in keeping with what Clarence said, we will include in the newsletter a call for written communications which will obviously be included in the packet for the Council. Also, I would encourage individual Council members, should they have conversations or contact with individuals that they'd care to summarize those contacts, naming the individuals and so forth, and send them to the Council staff we could likewise include that information in the package.

Mace: Mr. Chairman, I sort of saved my speech until after the vote, but I want to second what Robin Samuelson said. Time and time again, the Council's better decisions have been based upon industry compromise. I understand you've been visiting on this, you're quite close. I would urge you to continue to visit because a compromise on your part is going to be a lot better solution than you'll get out of this Council if it's left up to them in June. And, so that's fatherly advice as far as I'm concerned and I hope that you consider it. Another concern that I have is the tendency toward divisiveness that I see when we get into a feeding frenzy such as this, Alaskans versus non-Alaskans. You know, we're all part of the family. It reminds me of a pride of lions. We fight like hell over the kill, but the next hunt we cooperate. And, we have to do that. The industry in Alaska owes a lot to Washington and Oregon entrepreneurs and fishermen that pioneered in the JV days and while we want to fight, and fights are good, I think that we have to fight as a family and we can't consider ourselves Alaskans versus outsiders. The Alaskan hire thing came up, and I support that, that's great. But a lot of that Alaska hire is going to depend upon outside, or Washington or Oregon, money and expertise. So, let's continue. I think in the past twenty years you've done very well fighting as a family and I hope that we can avoid this business of us and them and get on with it. Thank you.

Behnken: Mr. Chairman, I just wanted to say that I love all factory trawlers except. . ., I mean especially. . . No, Mr. Chairman, we have this other issue Mr. Pereyra had brought up about collecting the socioeconomic data. And, rather than get into that now, it seems to me that maybe we could take that up under C-6, is that the Council's intent?

Pautzke: Yes, that's a good place for it.

Lauber: All right, thank you. Thank all of you that participated in the testimony. We'll take a break and come back on agenda item C-1, essential fish habitat.

[end of this agenda item]

Revised Initial Regulatory Flexibility Analysis (IRFA)
for the Inshore/Offshore 3 Document

8.4 Initial Regulatory Flexibility Analysis (IRFA)

The Regulatory Flexibility Act (RFA) first enacted in 1980 was designed to place the burden on the government to review all regulations to ensure that, while accomplishing their intended purposes, they do not unduly inhibit the ability of small entities to compete. The RFA recognizes that the size of a business, unit of government, or nonprofit organization frequently has a bearing on its ability to comply with a federal regulation. Major goals of the RFA are: (1) to increase agency awareness and understanding of the impact of their regulations on small business, (2) to require that agencies communicate and explain their findings to the public, and (3) to encourage agencies to use flexibility and to provide regulatory relief to small entities. The RFA emphasizes predicting impacts on small entities as a group distinct from other entities and on the consideration of alternatives that may minimize the impacts while still achieving the stated objective of the action.

On March 29, 1996, President Clinton signed the Small Business Regulatory Enforcement Fairness Act. Among other things, the new law amended the RFA to allow judicial review of an agency's compliance with the RFA. The 1996 amendments also updated the requirements for a final regulatory flexibility analysis, including a description of the steps an agency must take to minimize the significant economic impact on small entities. Finally, the 1996 amendments expanded the authority of the Chief Counsel for Advocacy of the Small Business Administration (SBA) to file *amicus* briefs in court proceedings involving an agency's violation of the RFA.

8.4.1 Requirement to Prepare an IRFA

If a proposed rule is expected to have a significant economic impact on a substantial number of small entities, an initial regulatory flexibility analysis must be prepared. The central focus of the IRFA should be on the economic impacts of a regulation on small entities and on the alternatives that might minimize the impacts and still accomplish the statutory objectives. The level of detail and sophistication of the analysis should reflect the significance of the impact on small entities. Under 5 U.S.C., Section 603(b) of the RFA, each IRFA is required to address:

- A description of the reasons why action by the agency is being considered;
- A succinct statement of the objectives of, and the legal basis for, the proposed rule;
- A description of and, where feasible, an estimate of the number of small entities to which the proposed rule will apply (including a profile of the industry divided into industry segments, if appropriate);
- A description of the projected reporting, recordkeeping and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record;

- An identification, to the extent practicable, of all relevant Federal rules that may duplicate, overlap or conflict with the proposed rule;
- A description of any significant alternatives to the proposed rule that accomplish the stated objectives of the Magnuson-Stevens Act and any other applicable statutes and that would minimize any significant economic impact of the proposed rule on small entities. Consistent with the stated objectives of applicable statutes, the analysis shall discuss significant alternatives, such as:
 1. The establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities;
 2. The clarification, consolidation, or simplification of compliance and reporting requirements under the rule for such small entities;
 3. The use of performance rather than design standards;
 4. An exemption from coverage of the rule, or any part thereof, for such small entities.

8.4.2 What is a Small Entity?

The RFA recognizes and defines three kinds of small entities: (1) small businesses, (2) small non-profit organizations, and (3) small government jurisdictions.

Small businesses. Section 601(3) of the RFA defines a 'small business' as having the same meaning as 'small business concern' which is defined under section 3 of the Small Business Act. 'Small business' or 'small business concern' includes any firm that is independently owned and operated and not dominant in its field of operation. The SBA has further defined a "small business concern" as one "organized for profit, with a place of business located in the United States, and which operates primarily within the United States or which makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor...A small business concern may be in the legal form of an individual proprietorship, partnership, limited liability company, corporation, joint venture, association, trust or cooperative, except that where the form is a joint venture there can be no more than 49 percent participation by foreign business entities in the joint venture."

The SBA has established size criteria for all major industry sectors in the US including fish harvesting and fish processing businesses. A business involved in fish harvesting is a small business if it is independently owned and operated and not dominant in its field of operation (including its affiliates) and if it has combined annual receipts not in excess of \$ 3 million for all its affiliated operations worldwide. A seafood processor is a small business if it is independently owned and operated, not dominant in its field of operation, and employs 500 or less persons on a full-time, part-time, temporary, or other basis, at all its affiliated operations worldwide. A business involved in both the harvesting and processing of seafood products is a small business if it meets the \$3 million criterion for fish harvesting operations. Finally a wholesale business servicing the fishing industry is a small business if it employs 100 or less persons on a full-time, part-time, temporary, or other basis, at all its affiliated operations worldwide.

The SBA has established "principles of affiliation" to determine whether a business concern is "independently owned and operated." In general, business concerns are affiliates of each other when one concern controls or has the power to control the other, or a third party controls or has the power to control both. The SBA considers factors such as ownership, management, previous relationships with or ties to another concern, and contractual

relationships, in determining whether affiliation exists. Individuals or firms that have identical or substantially identical business or economic interests, such as family members, persons with common investments, or firms that are economically dependent through contractual or other relationships, are treated as one party with such interests aggregated when measuring the size of the concern in question. The SBA counts the receipts or employees of the concern whose size is at issue and those of all its domestic and foreign affiliates, regardless of whether the affiliates are organized for profit, in determining the concern's size. However, business concerns owned and controlled by Indian Tribes, Alaska Regional or Village Corporations organized pursuant to the Alaska Native Claims Settlement Act (43 U.S.C. 1601), Native Hawaiian Organizations, or Community Development Corporations authorized by 42 U.S.C. 9805 are not considered affiliates of such entities, or with other concerns owned by these entities solely because of their common ownership.

Affiliation may be based on stock ownership when (1) A person is an affiliate of a concern if the person owns or controls, or has the power to control 50 percent or more of its voting stock, or a block of stock which affords control because it is large compared to other outstanding blocks of stock, or (2) If two or more persons each owns, controls or has the power to control less than 50 percent of the voting stock of a concern, with minority holdings that are equal or approximately equal in size, but the aggregate of these minority holdings is large as compared with any other stock holding, each such person is presumed to be an affiliate of the concern.

Affiliation may be based on common management or joint venture arrangements. Affiliation arises where one or more officers, directors or general partners controls the board of directors and/or the management of another concern. Parties to a joint venture also may be affiliates. A contractor and subcontractor are treated as joint venturers if the ostensible subcontractor will perform primary and vital requirements of a contract or if the prime contractor is unusually reliant upon the ostensible subcontractor. All requirements of the contract are considered in reviewing such relationship, including contract management, technical responsibilities, and the percentage of subcontracted work.

Small organizations. The RFA defines "small organizations" as any nonprofit enterprise that is independently owned and operated and is not dominant in its field.

Small governmental jurisdictions. The RFA defines small governmental jurisdictions as governments of cities, counties, towns, townships, villages, school districts, or special districts with populations of less than 50,000.

8.4.3 What is a Substantial Number of Small Entities?

In determining the scope, or 'universe', of the entities to be considered in making a significance determination, NMFS generally includes only those entities, both large and small, that can reasonably be expected to be directly or indirectly affected by the proposed action. If the effects of the rule fall primarily on a distinct segment, or portion thereof, of the industry (e.g., user group, gear type, geographic area), that segment would be considered the universe for the purpose of this criterion. NMFS then determines what number of these directly or indirectly affected entities are small entities. NMFS generally considers that the 'substantial number' criterion has been reached when more than 20% of those small entities affected by the proposed action are likely to be significantly impacted by the proposed action. This percentage is calculated by dividing the number of small entities impacted by the action by the total number of small entities within the universe. The 20 percent criterion represents a general guide; there may be instances when, in order to satisfy the intent of the RFA, an IRFA should be prepared even though fewer than 20 percent of the small entities are significantly impacted.

8.4.4 What is a Significant Economic Impact?

NMFS has determined that an economic impact is significant for the purposes of the RFA if a regulation is likely to result in:

- more than a 5 percent decrease in annual gross revenues,
- annual compliance costs (e.g., annualized capital, operating, reporting) that increase total costs of production by more than 5 percent,
- compliance costs as a percent of sales that are 10 or more percent higher for small entities than compliance costs for large entities,
- capital costs of compliance that represent a significant portion of capital available to small entities, considering internal cash flow and external financing capabilities, or
- the regulation is likely to result in 2 or more percent of the small entities affected being forced to cease business operations.

Note that these criteria all deal with adverse or negative economic impacts. NMFS and certain other Federal agencies interpret the RFA as requiring the preparation of an IRFA only for proposed actions expected to have significant adverse economic impacts on a substantial number of small entities over the short, middle, or long term. Most regulatory actions are designed to have net benefits over the long term; however, such actions are not shielded from the RFA's requirement to prepare an IRFA if significant adverse economic impacts on a substantial number of small entities are expected in the short or longer term. Thus, if any action has short-term significant adverse impacts on a substantial number of small entities, even though it will benefit small entities in the long term, and IRFA must be prepared.

8.4.5 Small Entities in the BSAI Pollock Fishery

The BSAI pollock sector industry profiles prepared for the Council's June 1997 meeting and contained in Appendix 1 identify: (1) the number of operations, by size, capacity, mode of processing, and product form; (2) catch, bycatch, discards, and utilization; (3) relative "operational dependence" deriving from BSAI pollock fisheries; (4) product mix and output quantities of pollock; (5) price, by product form and markets; (6) employment patterns; (7) linkages to CDQ apportionments; and (8) ownership interests and patterns.

To identify the number and type of business concerns participating in the BSAI pollock fishery that meet the definition "small entities", the operations described in Appendix 1 must be measured against the size and affiliation standards outlined in section 8.4.2. While available data on ownership and affiliation patterns in the BSAI pollock fishery are not sufficiently detailed to discern whether each individual business concern meets the definition of "small entity," data available in the sector profiles does allow some general conclusions on the number of small entities in each industry component. These general conclusions are displayed in Table 8.16 for the base year 1996.

Table 8.16 Estimated numbers and types of small entities participating in the BSAI pollock fishery in 1996

<i>Industry component or type of entity</i>	<i>Small</i>	<i>Large</i>	<i>Total</i>
<u>Inshore sector</u>			
Inshore processors	0	8	8
Inshore catcher-boats	40	51	91
<u>Offshore sector</u>			
True motherships	0	3	3
Catcher-processors	1	30	31
Catcher-boats	24	25	49
<u>Small organizations</u> (CDQ groups)	6	0	6
<u>Government jurisdictions</u> (cities)	60	1	61

Inshore processors. Four of the 8 inshore processors operating in the BSAI pollock fishery are either wholly owned subsidiaries or close affiliates of Japanese multi-national corporations. Due to their affiliation with large foreign entities with more than 500 employees worldwide, none of these processors can be considered small entities. Of the remaining 4 inshore processors, 3 are owned by US companies that employ more than 500 persons in all their affiliated operations, and therefore cannot be considered small entities. The remaining inshore processor has been identified as closely affiliated with its 5 delivering catcher-boats and the gross annual receipts of the affiliated entities taken together (the processor and its 5 affiliated catcher-boats) exceed the \$3 million criterion for fish harvesting operations. Therefore, none of the inshore processors in the BSAI pollock fishery appear to meet the criterion for small entities.

Inshore catcher-boats. The sector profiles provided in Appendix I identify 118 catcher boats altogether: 69 operate in the inshore sector exclusively, 27 operate in the offshore sector exclusively, and 22 operate in both sectors. Of the 91 catcher-boats that operate exclusively or partly in the inshore sector, the ownership data in the sector profiles identify 26 vessels owned in whole or part by inshore processors. These 26 vessels may be considered to be affiliated with their respective inshore processor owners and cannot therefore be considered small entities because none of the inshore processors in the BSAI pollock fishery themselves are small entities. An additional 5 catcher-boats have been identified as closely affiliated with an inshore floating processor and these 5 catcher-boats taken together with their affiliated processor exceed the \$3 million criterion for fish harvesting operations and are therefore not believed to be small entities. Furthermore, an additional 20 catcher-boats have ownership affiliations with other catcher-boats or catcher processors. The gross annual receipts of each of these groups of affiliated catcher boats is believed to exceed the \$3 million criterion for small entities

when all their fisheries earnings are taken as a whole. The remaining 40 catcher-boats operating exclusively or partly in the inshore sector are believed to qualify as independently owned and operated small entities.

Offshore catcher-boats. Twenty seven catcher-boats operate in the offshore sector exclusively and 22 operate in both sectors for a total of 49 offshore catcher-boats. Of these, 13 have ownership affiliations with large inshore or offshore processors and, therefore, do not meet the \$3 million criterion for small entities. An additional 12 catcher-boats have ownership affiliations with other vessels or operations that taken together with their affiliated entities are believed to exceed the \$3 million gross receipts criterion for small entities when all their fisheries earnings are taken as a whole. The remaining 24 catcher-boats operating exclusively or partly in the offshore sector are believed to qualify as independently owned and operated small entities.

True motherships. Three “true motherships” operate in the offshore sector. All 3 “true motherships” have ownership or business affiliations with large Japanese-owned processing companies, and are further affiliated with some of their delivering catcher-boats. Taken together with their affiliated entities, none of the “true motherships” are believed to meet the criteria for small entities.

Offshore processors. To qualify as a small entity, a catcher processor must be independently owned and operated, have no more than 49 percent foreign ownership, and have gross annual receipts of less than \$3 million. None (or perhaps one) of the offshore catcher processors operating in the BSAI pollock fishery appear to meet the criteria for small entities.

Small organizations. The 6 CDQ groups participating in the BSAI pollock fishery are the only small organizations that have been identified as directly affected by the inshore-offshore alternatives under consideration. Impacts to these small organizations are analyzed in detail in Appendix III.

Small governmental jurisdictions. The governmental jurisdictions with direct involvement in the BSAI pollock fishery are described in detail in Appendix 2. In Appendix II, 56 CDQ communities and 4 Alaska non-CDQ communities (Unalaska, Sand Point, King Cove, and Kodiak) are identified as small governmental jurisdictions with direct involvement in the BSAI pollock fishery. The remaining government jurisdiction with direct involvement in the BSAI pollock fishery, Seattle, does not qualify as a small governmental jurisdiction.

8.4.6 Impacts of the Alternatives on small entities

As noted in the existing I/O3 RFA chapter, finalization of this IRFA will depend on the selection of a ‘preferred alternative’ by the Council from among the alternatives and options being considered. The existing document does contain detailed descriptions of the ‘universe’ of entities (small and large), as well as potential impacts to those entities. However, the existing RFA is incorrect in its classification of all BSAI pollock vessels/plants as small entities; therefore, the general expectations in that document can now be modified to draw some alternative generalizations. Among the new findings are the following:

Small business entities affected directly. Independent catcher-boats appear to be the only small business entities participating in the BSAI pollock fishery. Independent catcher-boats participate in both sectors of the pollock fishery and a substantial number of the participants in each sector (namely all) could be affected by some of the alternatives under consideration that would shift more than 5 percent of pollock to the offshore sector (without additional mitigating options). Likewise, options to preclude these vessels from operating within the CVOA, regardless of the basic sector allocation, could also impose significant impacts. Some of the alternatives and options posed in the analysis would provide specific allocations (and protection) to small catcher vessels within

this sector, and therefore would provide positive impacts *relative to other alternatives being considered*, noting that nothing in the status quo alternative, or in the No Action alternative, provides such protection.

Other small business entities affected indirectly. Support industries are identified in Appendix II, while small independently owned vessels in other fisheries that might encounter spillover effects from significant reallocation alternatives are discussed in Chapter 8.2. Based on the information available, none of the alternatives would be expected to significantly impact a substantial number of these entities.

Small organizations. Impacts to CDQ communities are covered extensively in Appendix III. While the CDQ groups have business ties to the major industry sectors involved in the allocations, and could experience indirect impacts from certain alternatives, these same groups derive most of their fisheries activities from their direct 7.5% allocation of pollock and other fisheries. Based on the information available, none of the alternatives would be expected to significantly impact a substantial number of these entities.

Small governmental jurisdictions. Impacts to small governmental jurisdictions are covered extensively in Appendices II and III. Indirect impacts are possible, but cannot be fully quantified based on the available information.

Again, the statements above represent generalizations to assist the Council in its decision. Additional analysis, and a revised IRFA will be completed after selection of the Council's 'preferred alternative'.

8.4.7 Final Regulatory Flexibility Analysis (FRFA)

When an agency issues any final rule, it must prepare a FRFA or certify that the rule will not have a significant economic impact on a substantial number of small entities. The FRFA must discuss the comments received, the alternatives considered and the rationale for the final rule. Each FRFA must contain:

- A succinct statement of the need for, and objectives of, the rule;
- A summary of significant issues raised by the public comments in response to the IRFA, the agency's response to those comments, and a statement of any changes made to the rule as a result of the comments;
- A description and estimate of the number of small entities to which the rule will apply, or an explanation of why no such estimate is available;
- A description of the reporting, recordkeeping, or other compliance requirements of the rule; and
- A description of the steps the agency has taken to minimize the significant economic impact on small entities consistent with the stated objectives of applicable statutes, including a statement of factual, policy, and legal reasons for selecting the alternative adopted in the final rule and why each one of the other significant alternatives to the rule considered by the agency that affect the impact on small entities was rejected.

The last item is the most notable change in the requirements for a FRFA under the 1996 amendments to the RFA. Previously, an agency had only to describe each significant alternative it had considered that could minimize the significant economic impact of the rule and provide a statement why each had been rejected. Under the 1996 amendments, an agency must provide an explanation of why it rejected significant alternatives to the chosen

course that merely affect the economic impact of the rulemaking on small entities. Further, an agency must describe the steps it has taken to minimize the significant economic impact of the alternative it has chosen, including factual, legal, and policy reasons explaining why the agency selected the preferred alternative.

The FRFA will be completed by NMFS after opportunity for public comment on the proposed rule and IRFA.

FAX TRANSMITTAL

of pages ▶

To: Darrell Brannan From: L. Queirolo
 Dept./Agency: NPFMC Phone: (206) 526-6364
 Fax #: URGENT

FEDERAL BUREAU OF INVESTIGATION
GENERAL INVESTIGATIVE DIVISION

Darrell: As per your request, Angie pulled the following together. **NOTE** that the first set of data reflects 'total groundfish' catch in the BSAI pollock 'target' fisheries... **MINUS** the CDQ allocation.

YR	INSHORE	TRUE MS	C/P	TOTALTONS	MS % OF TOTAL OF AT-SEA
91	408,434	143,795	1,039,913	1,592,141	9.0%
92	426,642	160,872	855,606	1,443,120	11.1%
93	436,133	116,390	671,672	1,224,195	9.5%
94	419,760	108,523	661,943	1,190,226	9.1%
95	417,855	101,709	671,555	1,191,119	8.5%
96	392,782	115,530	589,864	1,098,175	10.5%
97	353,002	110,034	547,895	1,010,931	10.9%
		<u>856,853</u>		<u>8,749,907</u>	<u>9.79% wt. Avg.</u>

9.80% Avg.

In the second table, the data reflect 'total POLLOCK' catch in the BSAI pollock target fisheries... **MINUS** the CDQ allocation.

YR	INSHORE	TRUE MS	C/P	TOTALTONS	MS % OF TOTAL
91	395,421	142,956	1,003,319	1,541,695	9.3%
92	415,901	158,604	817,495	1,392,000	11.4%
93	421,684	115,463	649,225	1,186,373	9.7%
94	415,404	107,099	645,841	1,168,344	9.2%
95	411,855	100,129	651,738	1,163,722	8.6%
96	385,048	112,921	572,855	1,070,824	10.5%
97	346,158	108,939	536,278	991,375	11.0%
		<u>846,111</u>		<u>8,514,333</u>	<u>4.94% wt. Avg.</u>

You may, of course, derive an 'average' in a number of ways (e.g., weighted, unweighted, etc., etc.)

9.95% Avg.

GOOD LUCK!!

Just Pollock
 in BSAI
 Target

TONY KNOWLES, GOVERNOR

P.O. BOX 112100
JUNEAU, ALASKA 99811-2100
FAX: (907) 465-5085

**DEPARTMENT OF COMMUNITY AND
REGIONAL AFFAIRS**

**MUNICIPAL & REGIONAL ASSISTANCE DIVISION
COMMUNITY DEVELOPMENT QUOTA PROGRAM**

CDQ MANAGER
PHONE: (907) 465-5536
FAX: (907) 465-5085

CDQ SPECIALIST
PHONE: (907) 465-5534
FAX: (907) 465-2948

June 8, 1998

Chris Oliver
Deputy Director
North Pacific Fishery Management Council
605 W. 4th Avenue, Suite 306
Anchorage, Alaska 99501

RE: Community-related information in the McDowell Group report

Dear Mr. ^{Chris} Oliver:

It was recently pointed out that there may be some outdated or incorrect community related information in the McDowell Group report. Below is a chart that lists the current number of communities and populations of each CDQ group.

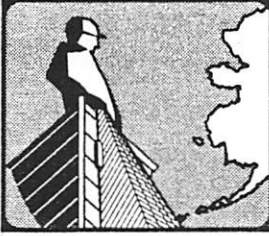
CDQ Group	Communities	Population
APICDA	6	592
BBEDC	14	5,653
CBSFA	1	764
CVRF	17	6,580
NSEDC	15	8,588
YDFDA	4	2,191

If you have any further questions regarding this information, please do not hesitate to call me at (907) 465-5536.

Sincerely,


Glenn Haight
CDQ Manager

BSFA



Bering Sea Fishermen's Association

725 Christensen Drive
Anchorage, Alaska 99501
(800) 770-6519 (Within Alaska)
(907) 279-6519
FAX (907) 258-6688

Serving western Alaska small boat fisheries since 1980

June 4, 1998

North Pacific Fishery Management Council
605 West 4th Avenue, Suite 306
Anchorage, Alaska 99501

Attn: Chairman, Rick Lauber

Re: Inshore/offshore 3

Dear Chairman Lauber and Council Members:

I am enclosing 4 graphs that Mr. Neal Fried of the Alaska Department of Labor uses as a part of a presentation of a review of aspects of the Alaska fishing industry. These 4 graphs are among many others that Mr. Fried uses in providing an overview of our industry.

These graphs, and the others that Mr. Fried has prepared, hardly tell the whole story of our extensive fishing industry and its economic impact here in Alaska. But they certainly do give the flavor of how things are, and make it clear that all of you on the Council must ask careful questions as you contemplate whether or not to realign the pollock quota.

Just because a vast majority of people directly employed in the seafood processing industry in Alaska are non-residents of Alaska does not tell the story. Obviously, resident Alaska fishermen and resident Alaska suppliers of materials and services and their Alaska resident employees benefit from the seafood processing industry.

Iceland has a 200 nautical mile Economic Enterprise Zone (EEZ) and an onshore and an offshore aspect. But, basically, it has no non-resident consideration comparable to Alaska. All citizens are Icelanders (though I suppose there is no more intense dislike than that of an East Icelander for a West Icelander unless, of course, it is the West Icelander's jaundice toward all thing East Icelandic).

In any event, from what I can gather, fish processing in Iceland is "offshoretropic," probably because it is, ultimately, more "efficient" (if, in fact, it really is ultimately more efficient to have almost everybody living in Reykjavik--please see the enclosed copies of e-mail items which thumbnail sketch trends in Iceland).

2.

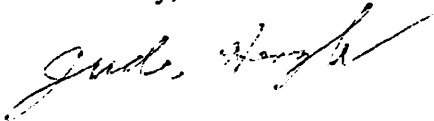
One thing that can be made of the Icelandic situation is that, regardless of where the wealth of its fisheries moves, it is always in the hands of Icelanders. (Perhaps, Iceland would have done well to establish its own Community Development Quotas and thereby move some of the wealth of its fishery through its rural communities on its way to Reykjavik.)

And what it all probably means is that, absent war footing, and notwithstanding the most carefully drawn plans of well-meaning central planners or earnest geographers, in the longer run, market forces and efficiency prevail. (But I gress; back to a main point.)

If, all other things aside, it is the main intent of this council to bring home bacon--and benefits to Alaskans, then the best assurance you have that it will fall into the right hands, namely, Alaska residents, is to award pollock quota to the CDQ corporations. If you do that, the benefits of that quota will a make a tour through, for example, Nome, Savoonga, Kongiganak, Anchorage and Juneau before finding their way to Seattle, Tokyo and Oslo.

Thank you for your attention to this matter, and, if you have any questions, please call.

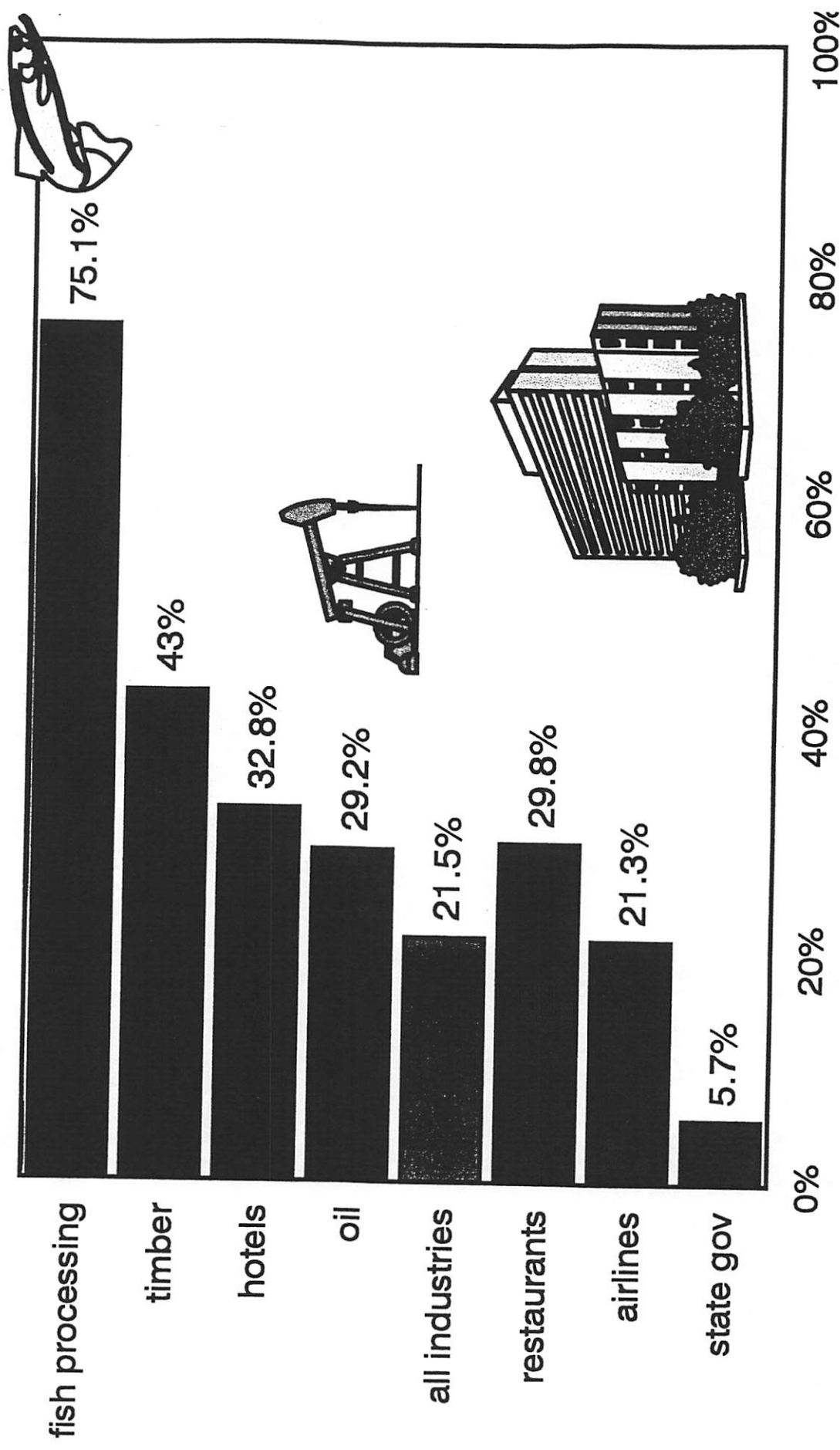
Sincerely,



Jude Henzler
Executive Director

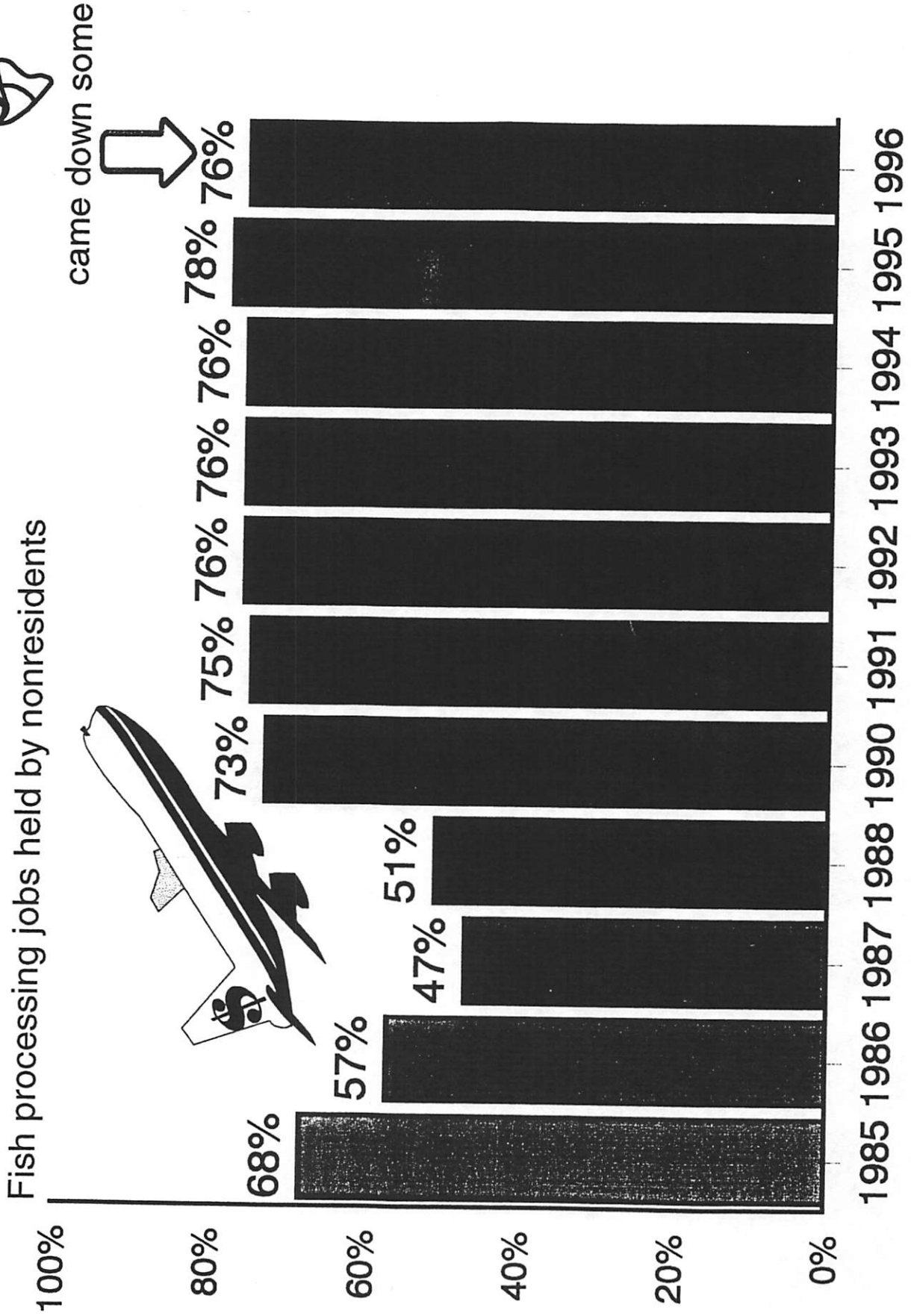
encl: 4 Alaska Dept. of Labor graphs
3 e-mail overviews of Fish processing trends in Iceland

More Nonresidents are Employed in the Fish Processing Industry than any Other



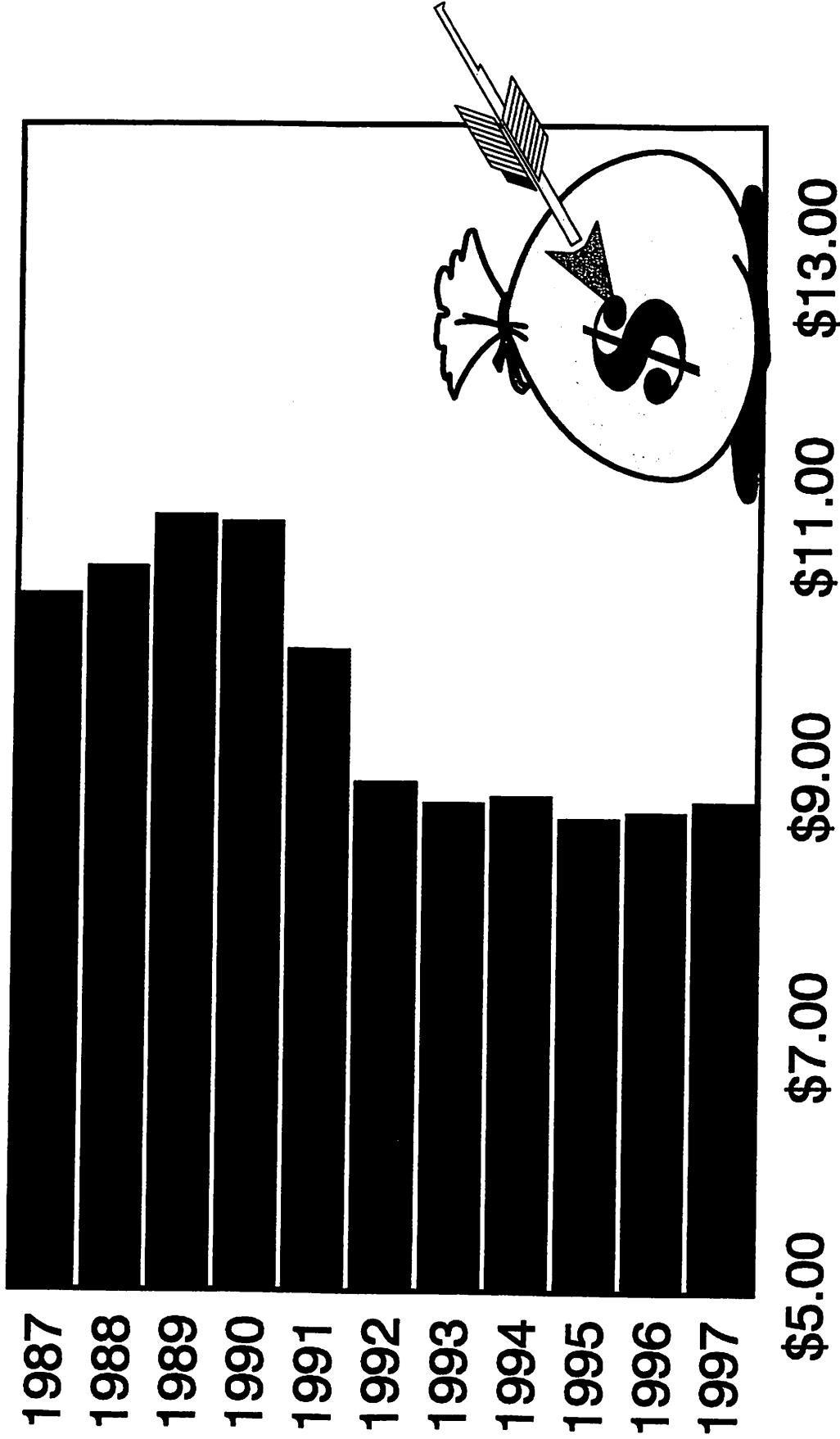
Percent of Nonresidents Working in Alaska's Industries-1996

Not Many Alaskans Are Processing Fish



...But After Being Adjusted for Cost-of-Living They Have Fallen

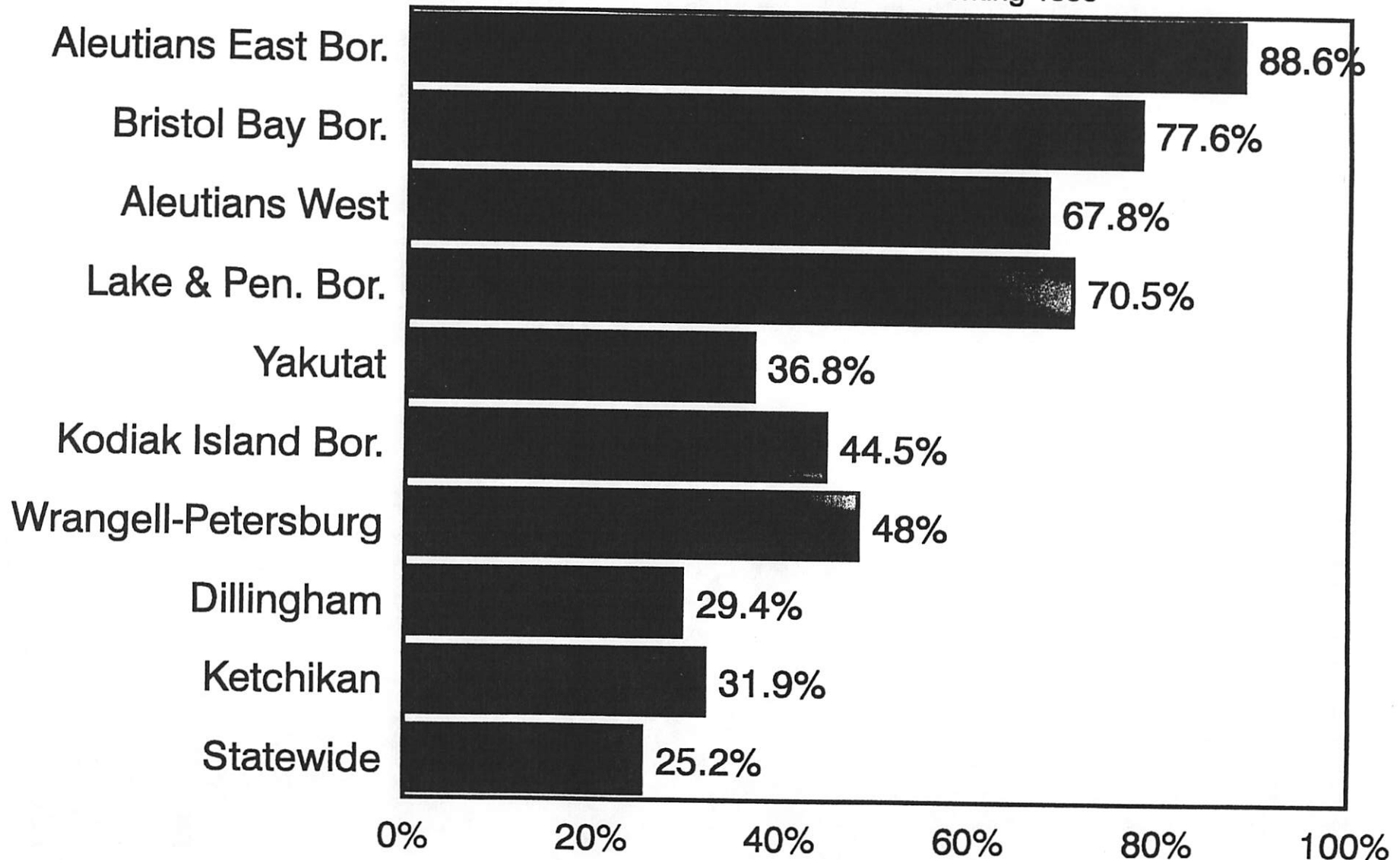
1997 Dollars



More Nonresidents Tend to be Employed in Alaska's Fishing Communities



Percent of Private Sector Nonresidents Working-1996



Subject: [Fwd: inshore/offshore]

Date: Sat, 30 May 1998 18:45:45 -0800

From: Art Nelson <artn@alaska.net>

Organization: Bering Sea Fishermen's Assoc

To: artn@alaska.net

Subject:

Re: Icelandic offshore fishing policy

Date:

Sat, 30 May 1998 12:36:31 +0300

From:

"Albert Sigurdsson" <albsig@utu.fi>

Being Icelandic I feel compelled to answer you even if I am not an expert in fisheries policy or economics analysis.

What I know is that there was an increase in offshore fishprocessing in the 1980s as larger and more efficient boats were bought by fishing industries that were doing well.

This was probably not a concious policy effort on behalf of the Icelandic government but was of course allowed in the name of free trade and because these industries are paying more (not higher) tax than other companies. Efficiency has also long been a main goal of the fishing industry as a whole.

Opposition to the offshore fish processing was mainly from smaller fish processing companies and stakeholders who didnt get anything out of the 'big boat system', and even worse, jobs were being lost since the fish was bypassing onshore factories.

Being a geographer myself I am mostly interested in the overall effect that

the offshore factories have had on the settlement of small towns in Iceland, more people are moving

to Reykjavik every year because of fewer jobs being available in smaller towns. But this is of course not solely due to fisheries issues, but the offshore fish processing ships have had some small part in that process.

Feel free to contact me if you have other general questions on the Icelandic issues.

You may also contact my father who is selling Icelandic fish in Boston nowadays, he has

a much more detailed knowledge on the Icelandic fishing business since he's been living

in it for some decades and he can also sell you some Icelandic fish if you're interested.

His name is Siggi and the email is: siggi@rainbows.tiac.net

Cheers,

Albert S. Sigurdsson

Environmental Geography, MSc

Home address:
Kirsitie 4 E 39,
00760 Helsinki,
Finland

albsig@utu.fi
<http://www.utu.fi/~albsig>
Tel: +358 - 9 - 351 4580
Fax: +358 - 9 - 4030 0790

ITQs - the Icelandic Experience

Iceland's ITQ system, frequently used as a shining example of how fisheries should be managed, has been the subject of extensive debates inside Iceland, and abuses of the quota system were one of the main reasons for the recent strikes that brought fishing to a halt.

Iceland introduced an ITQ quota system in the early 1980s, less than a decade after a series of cod wars had forced foreign fishing fleets out of Icelandic waters. Virtually unrestricted investment in new stern trawlers in the 1970s and 1980s brought about a situation in which Iceland was catching as much, if not more, cod than the foreign, predominantly UK and German, trawlers had taken before the cod wars.

A system of 'rough' days, in which trawlers were required to stay on non pressure stock species such as plaice or redfish was largely a failure, and this was replaced with a system of transferable quotas for vessels over 10 registered tonnes.

An option for fishing vessel operators was to go for a parallel days at sea scheme, until this was finally abolished before 1990 and all quotas was brought into the ITQ framework.

For the first years that quotas were in place, they were regularly exceeded, and minimal penalties were imposed on anyone who 'bust' their quota. In fact, at one point it was more economical to go over quota and pay the fine than to buy a quota legally on the open market. Penalties have since been drastically increased, and a vessel's fishing licence can now be suspended for going over quota.

The introduction of ITQs almost immediately resulted in a market for cod quotas, and later for other species such as shrimp and black halibut as they were drawn into the quota system. The other result was the massive growth of the fleet of small boats outside the ITQ system, which rapidly caught far more cod than those behind the quota system had dared to envisage. Many boats were shortened to bring them under the 10 gt limit, and new boats were built or imported in large numbers until the government was forced to take a series of belated steps to limit their activities. The size limit was brought down to 6 gt, and the activities of the inshore fleet are now hedged in with extensive restrictions. But with massive restrictions on the rest of the fleet, and with aggressive lobbying by the influential Small Boat Owners Association, a situation has arisen where a 6 gt boat with two crewmen and a few jigging reels can have the same quota as a 200 gt netter.

The huge market in quotas in Iceland - 58,500 'cod-equivalent' tonnes or around a third of the total cod TAC was traded in some way in the 1996-97 quota year - has resulted in phenomenal amounts of money changing hands and a whole quota trading industry.

Several companies set up shop as quota brokers, trading in leased or outright sales of quotas. The current price is around 88 Isl Kr per kilo for cod - around £800 per tonne - to lease a quota for the current season. To buy a quota outright the price is reported to be close to £7000 per tonne.

Much of the quota sales are to owners who have gone over quota, and are thus forced to lease quotas at whatever price there is to avoid penalties. This is happening constantly, as cod by catches when targeting other species cannot be avoided. With these owners being forced to lease quotas, prices are dramatically inflated, especially towards the end of the quota year.

One trawler skipper told FN recently that he spends a week at sea, and can easily catch his quota for cod on a Sunday, even fitting windows to his trawl to avoid bags of more than a few tonnes, and spending the rest of the week avoiding cod and looking for other species.

There have been repeated calls for the quota to be increased, following encouraging initial reports after the annual spring research cruises by the Marine Research Institute. But the government is unlikely to take any action before the end of the quota year, possibly working on past experience fifteen years ago when quotas were politically rather than scientifically decided.

"There is so much cod in the sea now, and has been for the last three years, that it doesn't have enough to eat. The cod are sometimes so thin there is talk of the fish starving," one Reykjavik processor told FN.

Unlike the UK, Icelandic fishermen are represented by a group of highly influential trade unions, who brought fishermen out on strike in January and again a month later when negotiations over pay and conditions had ground to a halt.

One of the main bones of contention was the abuses that the market and the ITQ system is open to. It is common practice, and common knowledge that when a vessel owner leases a quota, crews' shares are docked to pay for part of it, something that unions have been battling against for years.

"This is completely illegal, but it is very widespread," FN was told by a source who preferred not to be named.

The fleet stoppage was brought to an end after a few short weeks, when the government pushed legislation through Parliament to outlaw strike action, by which time processors ashore were starved of fish and prices had already gone through the ceiling.

Part of the package put together by the authorities was to pledge to establish an official watchdog to monitor agreements between crews and owners over pay and conditions, and to establish a single central public quota trading forum, and to prohibit more than 50% of a vessel's quota from being transferred. Fishermen are in general satisfied with the result, which is likely to have far reaching effects on their working conditions, and the Icelandic government was clearly anxious to get the fleet back to sea and to placate the seamen's unions.

Iceland's rigidly enforced ITQ regime has clearly been a success in rebuilding the stocks of cod decimated after decades of heavy fishing, but at what cost?

Quota stripping, less commonplace now, was common practice in the first years of the quota system, with boats bought out, scrapped or sold on, and the quota transferred to another vessel. 25% of the total quota for all species is now believed to be in the hands of four major companies.

While it clearly makes economic sense to have fewer vessels operating more efficiently, a great many jobs have been lost, particularly in rural areas outside the south western corner of Iceland, with many small communities losing their main source of employment.

Also highgrading is thought to be common practice under a system that encourages discards. "The quotas are that expensive that it does not pay to keep anything but the highest quality fish, so that a massive amount of fish is thrown back dead."

A huge part of the quotas for all species is now in the hands of a few powerful figures as smaller operators took the opportunity to get out of the industry and retire, either selling their quotas outright to the highest bidder or leasing their quota and making a tidy annual profit on the proceeds.

"Everything now goes into the pockets of the quota owners," FN was told by a Reykjavik fish processor. "Lower fish prices are paid to the fishermen and the shore workers earn lower wages. The processing plants are also run less successfully, and this has become a massive problem, as we are becoming less able to compete on international markets. The quota holders are the people who run the country now, not the politicians."

The fact remains that vessel owners were given their quotas when the ITQ system was brought into being fifteen years ago on the basis of a track record. They have since been able to use, sell or lease what is seen in Iceland as the nation's resource, which opens up a new can of worms as to who this national resource actually belongs to...

American Independent Fishermen

June 11, 1998

Dear Council members

We believe the Council made a serious mistake at the time it adopted the I/O-1 amendment, by instituting an allocation system based on processing sectors. That decision has led directly to the demise of the independently owned CV harvest sector and to vertical integration.

That initial decision also appears to be a non-reversible commitment. There has been no serious consideration of an allocation based on a CV/CP split in subsequent analyses. There has been a limited consideration of a partial version of a harvester based split in the final draft of the EA/RIR.

Though Alternative four was added late and received limited analysis, the IO-3 document does contain information that makes clear what the impact of a processor based allocation has been. Perhaps the most significant passage in the EA/RIR is section 7.4.3 (... Market Control), which is quoted here:

Economic theory confirms that, all else equal, the competitive marketplace works to bring willing buyers and willing suppliers together and, through this process, establishes a 'fair' market clearing price for the exchange. Competition depends, among other things, upon the presence of sufficient numbers of participants on both sides of the market to assure all exchanges are, indeed, made by 'willing' demanders or suppliers. That is, neither side is able to induce the other to enter into an exchange that is not seen to be in each trader's best interest. As fewer and fewer participants (either buyers or sellers) are present in a market, the potential for market control, distortion, and/or failure increases. Such market failures diminish the aggregate 'benefit' deriving from the trade.

As the number of independent operators in any sector of the BSAI groundfish fishery (e.g., catcher vessels, true motherships, C/Ps, plants) declines, the benefits of the competitive market are reduced. Ownership consolidation and/or operational control within sectors, as well as management actions that narrow or dictate operator's market options in the fishery, increase the probability that market distorting pricing practices will emerge. For example, if the number of, say, pollock processors is very small, and/or the ability of

Because all fishers should be free.

independent catcher boats to deliver their catch to whomever they choose is restricted, processors may be in a position to exercise some degree of market control (i.e., capture some of the 'rents' that would have otherwise gone to the catcher boat, by reducing the price paid for raw catch).

Further, if one or more of those processors is vertically integrated (e.g., controlling capacity to harvest, process, re-process, and/or market) and represents a significant share of the effective capacity within these sectors, such firms may exercise a degree of market control which could be 'price distorting'. That is, such a firm could be a 'price setter', essentially establishing the effective price for the rest of the market (perhaps at several different stages of the market, e.g., ex-vessel, wholesale, retail). All others wishing to sell into that market would be 'price takers', accepting the established price or exiting the market.

The above examples demonstrate a form of 'market failure'. To the extent that they are present in the BSAI groundfish fisheries (particularly those which target pollock), they reduce the overall benefit to the Nation which could otherwise have been realized from the harvesting, processing, and marketing of this important U.S. fishery resource. Actions proposed under I/O3 could result in further consolidation of capacity and control within the sub-sectors identified in the analysis. This would be expected to further reduce the degree of competition in this fishery and increase the likelihood of distorting market failures.

This theoretical discussion mirrors the reality of the circumstances of the independent CV pollock fleet. A paper prepared by Dr. Wilen makes the same case and demonstrates how this has occurred in the pollock fishery (excerpts of that paper are attached), and what the long term consequences are for small entities.

Dr. Wilen's paper clearly demonstrates that the market at the ex-vessel level is non-competitive. It is difficult to explain how the differences in the values (CDQ vs CV) could be so large, except by arguing that the inshore market is fundamentally uncompetitive. If it were otherwise, then independent operators would be buying boats, not selling them.

The Council has also received at this meeting new information on the Regulatory Flexibility Act, which makes clear that independent CVs constitute most of the small entities involved in the pollock fishery. "Reg flex" requires: "a description of the steps the agency has taken to minimize the significant economic impact on small entities consistent with the stated objectives of applicable statutes, including a statement of the factual, policy and legal reasons for selecting the alternative adopted in the final rule and why each one of the other significant alternatives was rejected."

Given that harvester based alternatives are more likely to provide and distribute resource rents to US harvesters, versus processing based allocations that exports those rents to Japan, 'Reg flex' obliges the council to explain why:

- 1- we need a non-competitive market for CV fish**
- 2- why potential rents should be funneled to Japan, rather than to independent US small businesses (CVs).**

June 11, 1998

Page 3

Amendments to Magnuson did not repeal the National Standard about producing net economic benefit to the US. It is important is that US resources be managed in a manner that yields the highest possible returns to US interests. We believe that is best achieved by allowing harvesters freedom to make their own decisions about where and to whom to sell their fish.

Sincerely,

dave fraser
American Independent Fishermen

American Eagle

Forum Star

Muir Milach

Neahkanie

Oceanic

Tracy Anne

Western Dawn

American Independent Fishermen

Did You Know...?

HARVESTERS' INDEX

Ratio of pollock delivered by CVs <125' inshore vs. offshore in 1996: 1:1

Percentage of offshore CV deliveries by vessels <125' in 1996: 90%

Ratio of percent of shoreside deliveries by CVs <125' in 1991 to those in 1996: 3:2

Ratio of percent of TAC taken by CVs >125' in 1991 to those in 1996: 1:2

Ratio of foreign ownership of CVs >125' to foreign ownership of CVs <125': 2:1

Ratio of the hold capacity of a typical 170' CV to that of a 100' CV: 4:1

Number of CVs over 125 which were once Factory Trawlers: 5

Price paid to convert FT Titan to CV AK Command: \$14,000,000

Metric tons of pollock AK Command will need to break even at 1998 prices: 98,000MT

Number of years between 1987 and 1991 that CV share of pollock decreased: 3

Number of years between 1985 and 1992 that shoreplant share of pollock increased: 8

Economists' term for a small number of buyers, and restricted choice by sellers: "Market Failure"

Percentage of shoreside BS pollock purchased by 4 largest companies (Maruha, Nissui, Trident, Tyson): 90%

Ratio of ex-vessel shoreside price in 1991, to ex-vessel price in 1996: 1:1

Ratio of 1st wholesale value of products from a ton of pollock delivered shoreside in 1991, to that in 1996: 3:4

Percentage drop in the share of the wholesale product value paid to catchers, from 1991 to 1996: 30%

Lost value of fish to catcher boats in 1998: \$35 million

Value of capitalization by shoreplants since 1990: \$350 million

Annual payment on \$350 million capital cost: \$35 million

Name normally associated with those who pay capital costs: Owner

Trend in status of Catchers in BSA: Cannery Owned

Because all fishers should be free.

TESTIMONY OF MATT WEBER
TO THE
NORTH PACIFIC FISHERY MANAGEMENT COUNCIL
JUNE, 1998
DUTCH HARBOR, ALASKA

Thank you Mr. Chairman, My name is Matthew Weber; I am Vice President, International Division, Gorton's Seafoods in Gloucester, Massachusetts. We produce seafood products under the Gorton's label, the leading brand of frozen seafood in the United States. We are also a major supplier of fish portions for the McDonald's Corporation's U.S. restaurants.

I am here today representing the major users of Alaska pollock fillet and minced products in the United States. In addition to Gorton's, I am here on behalf of LD Foods, the other major supplier of breaded fish portions to McDonald's; and Long John Silver's, the nation's largest quick service restaurant chain comprised of 1,500 restaurants throughout the United States. The combined production and sales of these companies account for almost 500 million fish meals made from Alaska pollock consumed by Americans each and every year. Combined our companies employ more than 21,000 U.S. citizens.

In June of 1997 in Kodiak and again this past April in Anchorage, Bruce Cotton presented testimony on behalf of our company, LD Foods, and Long John Silvers, strongly opposing increased allocations to the on-shore sector at the expense of the

at-sea processing sector. I am here today to again state our companies' opposition to such reallocations whether through increasing the percentage of fish to be processed on shore or through expansion of the CVOA by time or area. We would support an extension of the current Inshore/Offshore allocation scheme, as is, while the Council completes work on its Comprehensive Rationalization Plan.

We are opposed to a reallocation of the pollock quota because we are deeply concerned over the effect such a reallocation would have on fillet and minced production out of Alaskan waters. In the 1998 "A" season, 77 percent of the total minced production, 80 percent of the total fillet production and 92 percent of the total deep-skinned fillet production was produced by the at-sea sector.

In the case of deepskinned pollock filets - an increasingly important product form for the U.S. foodservice market - there was no shoreplant production in all of 1997 and the 1998 "A" season, according to the data contained in the NMFS website. There are two floating processors anchored and registered as on-shore plants and they do produce deep-skinned fillet production, although certainly not enough to come close to satisfying this growing market. It does not appear the shoreplants have either the intent or the capacity to produce filets sufficient to meet the U.S. demand. Inquiries to the Japanese-owned shore-based plants regarding the possibility of them producing deep-skinned Alaska pollock for sale into the U.S. market were rejected. Only one of the on-shore plants has made any serious effort to produce filets and that product is used largely for that company's own business and is not available on the

open market. The fact of the matter is that it is much more economical to produce surimi than fillets in shore-based operation where the need for fish with less age on it severely limits the distance that catcher vessels can travel from the plant to find fish.

For the companies I am representing today, one hundred percent of their products are further processed in the United States, creating additional economic benefit to the people of the United States. In addition, the products are sold exclusively in the United States. While we have not had access to the precise numbers, a much greater share of the fillet production is further processed and consumed in the U.S. than is the case for surimi blocks.

The inescapable fact is that if the allocation to the shore-based sector is increased, the companies I am representing here today would be forced to buy more of their product overseas. The shore based sector is simply not interested in or incapable of large-scale fillet production. A greater allocation to the on-shore sector would divert fillet and minced production currently generated by the offshore fleet into surimi production by the large-scale shore-based plants which are, for all practical purposes, dedicated surimi facilities. This is particularly true for the Japanese-owned plants in Dutch Harbor.

It is ironic that the Council would consider reallocations which will restrict production of fillets and minced blocks at a time when these products are becoming more and more attractive. The recent increase in worldwide demand for whitefish fillets and minced

product has made them attractive markets for whitefish suppliers. A reallocation by this Council would restrict the U.S. industry's ability to meet that demand.

Alaska is being led along a very dangerous path by the proponents of allocating more and more product to vessels delivering onshore. Increasing the allocation will only

increase the dependence of the U.S. groundfish market on the very same companies that exert a great deal of control over the Alaskan salmon industry. The pollock

industry needs alternatives to surimi so this fishery does not become as dependent on the poorly-performing economies of Japan and the other Southeast Asian economies as the Alaskan salmon industry.

Mr. Chairman, we do not believe there is a sound rationale for greater allocations to the on-shore sector. In the original analysis, the justification was to avoid

"preemption" of one sector by another. To a certain extent, the inshore/offshore regime has accomplished that objective, but we cannot imagine how that argument

could be used to make further allocations at this time. Indeed, we find it difficult to

comprehend how any rationale could justify further re-allocations. We urge you to roll

over the current inshore/offshore regime. Mr. Chairman, that concludes my testimony. I would like to thank the Council for its time and attention.

INSHORE/OFFSHORE RESOLUTIONS

- Alaska Federation of Natives
- Bristol Bay Native Association
- Bristol Bay Borough
- Kawerak, Inc.
- Council of Tlingit and Haida Tribes
- City of Saint Paul

The attached resolutions all request a continuation of the Bering Sea pollock CDQ allocation on a permanent basis, and a roll-over of the current inshore/offshore allocation until the Council completes its Comprehensive Rationalization Plan for pollock and other groundfish species.

POINTS INCLUDED IN RESOLUTIONS

- The current pollock allocation results in:
 - 1) A stable and competitive pollock market
 - 2) A diverse mix of products
 - 3) A valuable source of employment for rural Alaska

POINTS OF CONCERN IN CHANGING THE CURRENT ALLOCATION

- Destabilizing effect on sectors of this fully capitalized fishery.
- Displacement of firms and employees.
- Wages of Western Alaskans employed in the catcher-processor fleet through the CDQ program will be affected.
- Reduced competition for salmon, crab and groundfish harvesters by increased consolidation which benefits a few large seafood companies.
- Market diversity for multiple product forms will be reduced.

ALASKA FEDERATION OF NATIVES, INC.

1997 ANNUAL CONVENTION

RESOLUTION 97-45

TITLE: ONSHORE/OFFSHORE RESOLUTION

WHEREAS: Western Alaska communities depend on both employment and economic development made possible through their involvement with both the CDQ and non-CDQ pollock operations of the Bering Sea; and

WHEREAS: by maintaining a healthy level of competition between competing sectors and firms in the North Pacific pollock fishery, the current allocation between offshore and onshore enhances the inherent value of the Bering Sea pollock resource and of pollock CDQs; and

WHEREAS: shifting excess pollock quota from the offshore sector to the onshore sector would adversely affect the competitive market for and value of Bering Sea pollock and pollock CDQs; and

WHEREAS: offshore sector jobs are aboard vessels that pay a good living wage, and maintain a "zero tolerance" drug-and-alcohol-free environment and permit Alaskans to maintain their participation in traditional subsistence activities; and

WHEREAS: the current pollock allocation system provides source of jobs and other economic opportunities for Western Alaskan fishermen and fisher-dependent communities in the Bering Sea pollock fishery; and

WHEREAS: shifting excess pollock quota from the offshore to the onshore sector would result in a substantial loss of pollock fishery employment opportunities; and

NOW, THEREFORE BE IT RESOLVED THAT: the Alaska Federation of Natives endorses: 1) A continuation of the Bering Sea/Aleutian pollock program on a permanent basis; and 2) An extension of the current Bering Sea/Aleutian Islands and Gulf of Alaska offshore/onshore pollock allocation until such time as the North Pacific Fishery Management Council completes its Comprehensive Rationalization Plan for pollock and other ground fish species.

SPONSORED BY: BBNA, BBNC

COMMITTEE ACTION: DO PASS

CONVENTION ACTION: AMENDED AND PASSED



BRISTOL BAY NATIVE ASSOCIATION
P.O. BOX 310
DILLINGHAM, ALASKA 99576
(907) 842-5257

Resolution 97- 09
by
Executive Committee

Onshore / Offshore resolution

WHEREAS: Western Alaskan communities depend on both the employment and economic development made possible through their involvement with both the CDQ and non-CDQ pollock operations of the Bering Sea; and

WHEREAS: by maintaining a healthy level of competition between competing sectors and firms in the North Pacific pollock fishery, the current allocation of 65% offshore and 35% onshore enhances and inherent value of the Bering Sea pollock resource and of pollock CDQ's; and

WHEREAS: shifting pollock quota from the offshore sector to the onshore sector would adversely affect the competitive market for and value of Bering Sea pollock and pollock CDQ; and

WHEREAS: offshore sector jobs are aboard vessels that pay a good living wage, maintain a "zero tolerance" drug and alcohol-free environment and permit Alaskans to maintain their participation in traditional subsistence activities, and are therefore highly preferred over onshore jobs by Western Alaskans; and

WHEREAS: the current pollock allocation system provides a stable source of jobs and other economic opportunities for Western Alaskan fishermen and fishery-dependent communities in the Bering Sea pollock fishery; and

WHEREAS: shifting pollock quota from the offshore sector to the onshore sector would result in a substantial loss of pollock fishery employment opportunities preferred by Western Alaskans.

NOW, THEREFORE BE IT RESOLVED THAT: the Bristol Bay Native Association endorses: 1) A continuation of the Bering Sea / Aleutian Islands pollock CDQ program on a permanent basis; and 2) An extension of the current Bering Sea / Aleutian Islands and Gulf of Alaska inshore / offshore pollock allocation until such time as the North Pacific Fishery Management Council completes its Comprehensive Rationalization Plan for pollock and other ground fish species.

Signed: *Donald J. Nelson*
President

CERTIFICATION:

I, the undersigned Secretary of the Bristol Bay Native Association, Inc. do hereby certify that the foregoing resolution was duly passed by the Board of Directors of Bristol Bay Native Association on the 6 day of September, 1997, and that a quorum was present.

Signed: *Margie Nelson*
Secretary

JEFFREY D. CURRIER
BOROUGH MANAGER

P.O. Box 189
NAKNEK, ALASKA 99633



TELEPHONE
(907) 246-4224
FAX
(907) 246-6533

Bristol Bay Borough

NAKNEK, SOUTH NAKNEK, AND KING SALMON, ALASKA

Resolution 97-23

A resolution from the Bristol Bay Borough in support of CDQ's and an extension of the current BSAI and Gulf of Alaska inshore/ Offshore allocation

Whereas, Western Alaskan communities depend on both the employment and economic development made possible through their involvement with both the CDQ and non-CDQ pollock operations of the Bering Sea; and

Whereas, by maintaining a healthy level of competition between competing sectors and firms in the North Pacific pollock fishery, the current allocation of 65% offshore and 35% onshore enhances the inherent value of the Bering Sea pollock resources and of pollock CDQ's ; and

Whereas, shifting pollock quota from the offshore sector to the onshore sector would adversely affect the competitive market for and value of Bering Sea pollock and pollock CDQ; and

Whereas, offshore sector jobs are aboard vessels that pay a good living wage, maintain a "zero tolerance" drug and alcohol-free environment and permit Alaskans to maintain their participation in traditional subsistence activities, and are therefore highly preferred over onshore jobs by Western Alaskans; and

Whereas, the current pollock allocation system provides a stable source of jobs and other economic opportunities for Western Alaskan fisherman and fishery-dependent communities in the Bering Sea pollock fishery; and

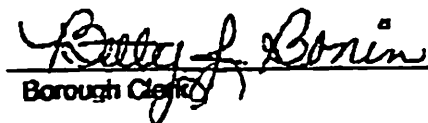
Whereas, shifting pollock quota from the offshore sector to the onshore sector would result in a substantial loss of pollock fishery employment opportunities preferred by Western Alaskans;

Therefore be it resolved that Bristol Bay Borough endorses:

1. A continuation of the Bering Sea/ Aleutian Islands pollock CDQ program on a permanent basis; and

2. An extension of the current Bering Sea/ Aleutian Islands and Gulf of Alaskan inshore/ offshore pollock allocation until such time as the North Pacific Fishery Management Council completes its Comprehensive Rationalization Plan for pollock and other groundfish species.

ATTEST:


Borough Clerk

IN WITNESS THEREOF



Assembly President



KAWERAK, INC.

P.O. BOX 948 - NOME, ALASKA 99762

TELEPHONE: (907) 443-5231 • FAX: (907) 443-3768

SERVING THE VILLAGES OF:

- BREYNS MISSION
- COUNCIL
- DIOMEDE
- ELM
- GAMBELL
- GOLOVIN
- KING ISLAND
- KOYUK
- MARYS IGLOO
- NOME
- SAVOONGA
- SHANTOOLUK
- MAREF
- MON
- STEBBING
- ST. MICHAEL
- TELLER
- UNALASKET
- WALES
- WHITE MOUNTAIN

Resolution #97-06

Whereas, the current inshore/offshore allocation of pollock in the Bering Sea has been in place since 1992; and

Whereas, the current allocation system has resulted in a strong and healthy pollock CDQ program; and

Whereas, the current inshore/offshore sectors of the Bering Sea has provided a measure of stability in the industry and between the two sectors since 1992; and

Whereas, the inshore/offshore sectors of the Bering Sea pollock industry are in a state of balance under the current inshore/offshore allocation system; and

Whereas, the current allocation system ensures a healthy product mix and a diversity of markets for Bering Sea pollock products; and

Whereas, the current allocation system maintains a healthy level of competition between competing sectors and firms in the North Pacific pollock fishery, thereby enhancing the inherent value of the Bering Sea pollock resource; and

Whereas, Western Alaskan communities depend on the employment and economic made possible through their involvement with both the CDQ and non CDQ operations of at-sea processors; and

Whereas, the current pollock allocation system offers a stable source of jobs and other economic opportunities for Western Alaskan fishermen and communities in the Bering Sea pollock fishery;

Therefore be it resolved: that Kawerak Inc., endorses:

1. A continuation of the Bering Sea/Aleutian Islands pollock CDQ program on a permanent basis; and
2. A roll-over of the current inshore/offshore allocation until such time as the North Pacific Fishery Management Council completes its Comprehensive Rationalization Plan for pollock and other groundfish species.

Chairman

Secretary

Passed this 17th day of September, 1997 at a duly convened meeting of the Kawerak Board of Directors.



CENTRAL COUNCIL
TLINGIT and HAIDA INDIAN TRIBES of ALASKA
ANDREW P. HOPE BUILDING
320 West Willoughby Avenue • Suite 300
Juneau, Alaska 99801-9983

EXECUTIVE COUNCIL OF THE CENTRAL COUNCIL
TLINGIT AND HAIDA INDIAN TRIBES OF ALASKA

Resolution EC/97-41

Title: **POLLOCK FISHERY MANAGEMENT**

WHEREAS, we recognize that both shore-based and at-sea processors are viable parts of Alaska's fishing industry and economy; and

WHEREAS, the current allocation of Bering Sea pollock has brought stability to Alaska's groundfish fisheries; and

WHEREAS, Gulf of Alaska pollock is reserved for shore-based processors within the existing inshore/offshore allocation program; and

WHEREAS, the current inshore/offshore allocation program sets aside 7.5% of Bering Sea pollock for the Community Development Quota (CDQ) program, which benefits western Alaska's coastal communities; and

WHEREAS, the at-sea processing industry has mounted successful job fair and recruiting campaigns to hire Alaskans for at-sea processing jobs; and

WHEREAS, the number of family-wage jobs available for Alaskans in the at-sea processing industry has increased dramatically, while shore-based processing jobs for Alaskans in the Bering Sea have decreased despite an increase in the amount of Bering Sea pollock allocated to shore-based processors; and

WHEREAS, reallocating more pollock to the shore-based processors will not bring additional jobs for Alaskans, but only extend by a few weeks the amount of time existing shore-based workers at Dutch Harbor and Akutan are employed; and

WHEREAS, reallocating more pollock to the shore-based processors would reduce the number of Alaskan jobs in the at-sea processing sector; and

WHEREAS, the at-sea processors pay a landing tax equal to the raw fish tax paid by the shore-based processors; and

WHEREAS, the at-sea processors contribute \$20 million annually to Alaska's economy through the CDQ program; and

WHEREAS, the at-sea processing fleet has developed a diverse array of products forms and markets for its value-added pollock products; and

WHEREAS, Alaskan salmon fishermen have witnessed a dramatic decline in the prices they are paid for salmon by the shore-based processors who control both the buying and selling of this resource; and

WHEREAS, pollock fishermen should not be put at risk to suffer the same loss of revenue that the salmon fishermen have; and

WHEREAS, fair and competitive markets for Alaskan products benefit all Alaskans; and

WHEREAS, the at-sea processing industry spends tens of millions of dollars annually with support service vendors in Alaska; and

WHEREAS, competition in the pollock industry will help maintain price stability for pollock products, thereby maintaining a stable source of tax revenue;

NOW, THEREFORE, BE IT RESOLVED by the Central Council of Tlingit and Haida Indian Tribes of Alaska that

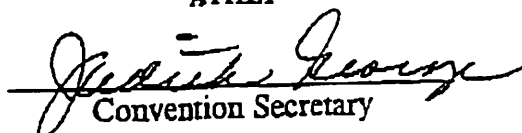
- The North Pacific Fishery Management Council vote to continue the existing Bering Sea pollock allocation between the shore-based and at-sea processing sectors;
- To continue the pollock CDQ program in the Bering Sea;
- And to continue the current inshore/offshore program in the Gulf of Alaska.

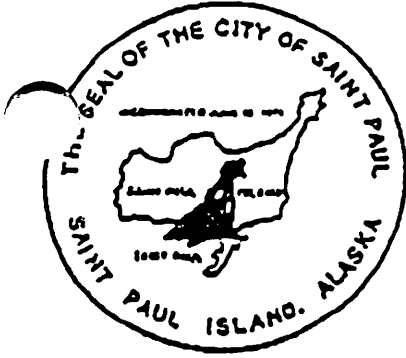
ADOPTED this 25th day of September, 1997, by the Executive Council of the Central Council of Tlingit and Haida Indian Tribes of Alaska by a vote of 4 ayes, 0 nays, 0 abstentions, and 2 absences.

CERTIFY


President

ATTEST


Convention Secretary



CITY OF SAINT PAUL

P.O. BOX 901
SAINT PAUL ISLAND, ALASKA
99560-0901
(907) 546-2331
FAX (907) 546-3188

RESOLUTION 97-12

A RESOLUTION SUPPORTING THE POLLOCK CDQ PROGRAM AND THE CURRENT INSHORE/OFFSHORE ALLOCATION.

WHEREAS the current inshore/offshore allocation of pollock in the Bering Sea has been in place since 1992; and

WHEREAS the current allocation system has resulted in a strong and healthy pollock CDQ program; and

WHEREAS the current inshore/offshore allocation of pollock in the Bering Sea has provided a measure of stability in the industry and between the two sectors since 1992; and

WHEREAS the current allocation system ensures a healthy product mix and a diversity of markets for Bering Sea pollock products; and

WHEREAS the current allocation system maintains a healthy level of competition between competing sectors and firms in the North Pacific pollock fishery, thereby enhancing the inherent value of the Bering Sea pollock resource; and

WHEREAS rural Alaskan communities depend on the employment and economic development made possible through their involvement with both CDQ and non-CDQ operations of at-sea processors; and

WHEREAS the current pollock allocation system provides a stable source of jobs and other economic opportunities for rural Alaskan fishermen and communities in the Bering Sea pollock fishery;

NOW THEREFORE BE IT RESOLVED THAT the Council of the City of Saint Paul hereby endorses

1. A continuation of the Bering Sea pollock CDQ program on a permanent basis;
2. A roll-over of the current inshore/offshore allocation until such time as the North Pacific Fishery Management Council completes its Comprehensive Rationalization Plan for pollock and other groundfish species.

PASSED, APPROVED AND ADOPTED BY A MAJORITY VOTE OF THE COUNCIL OF THE CITY OF SAINT PAUL THIS 15th DAY OF AUGUST, 1997.


Myron Melovidov, Vice-Mayor

ATTEST:


Phyllis A. Swetzof, City Clerk

May 28, 1998

Mr. Rick Lauber, Chairman
North Pacific Fishery Management Council
605 West 4th, Suite 306
Anchorage, Alaska 99501

Re: C-1 Inshore/Offshore III

Dear Mr. Chairman and members of the Council,

The many of us who signed below strongly believe

MORE FISH SHOULD COME INSHORE!

We request the Council increase the pollock allocation delivered to inshore processors. As residents of the coastal community of Unalaska, our future depends on a healthy onshore processing industry. We support the alternative mirroring the Council's 1991 preferred option of an allocation of 45% onshore and 55% offshore. We believe the Council document supports this allocation.

The document provides information illustrating:

- The inshore sector utilizes much more of the resource than the offshore sector. There is less waste when fish is processed inshore. The inshore sector represents better resource stewardship.
- The inshore sector achieves a 6 % higher value from each pound of the resource.

Inshore	\$556.00 per ton
Offshore	532.00 per ton
- The inshore sector hires more Alaskans than the offshore sector and those Alaskans hold ~~the~~ ^{MORE} higher paying jobs than the Alaskans in the offshore sector.
- The inshore sector pays more in taxes and fees to local and state governments.

This information by itself provides reason to adjust the allocation, specifically given the Magnuson-Stevens Act guidelines. It is time for a more fair and equitable allocation of the pollock resource. We depend on the onshore processors to support our families and our community.

Thank you for your full consideration of our request.

Christina Chamberlain

Rose Marie Ocuaman

Ed Procopius

José Cardenas

John B. Brandon

ALAZI HAMEED ALCHLISI

Israel Rivera

Ronald B. Habier

ERNESTO AGUINALDO JR.

JOLY Ocuaman

ONSHORE/OFFSHORE ALLOCATION

on shore

JUAN AREAS

~~DAI Z. NANCY~~

~~AS ZAYZA~~

~~BOONTHAN S~~

HIRUT ANDIHUN

Sambak Gyosikatta

Fixeris T. Jahan

Aila e. Fulgar

Alexandro Orjao

Kemh Olu

Walter Renter

ELSE SUE C

MARIAM A. ABREA

Heriberto y

Yancy

Rafel

Javier Ruiz

~~DAI~~

John J. Burns

Jesusa T. Bear

Amelia H. Borden

Florante Borden

~~SOLIE~~

Sahme Ghis

offshore party

BATCHE CHADRON

Olivia Miquin

~~RAHMAN~~

~~Yancy~~

~~DAI~~

Godofredo L. Langam

~~ST - Chay~~

AUGIE G. DIMALANTA

MAGNO DUCO

Leoncio Joaquin

~~ASHEMY~~

~~DAI~~

CHARITO P. MACASIGTS

~~DAI~~

Marylou Bumalay

Cherry Areja

Manuel Miquin

Amelia Gardo

Milpa Foster

Josephine Areja

Foralino D. Santos

Carmencita Mojica

Abdulic + Moke

Ellisa G. Infante

~~Patricia Gomez~~

PATRICIA GOMEZ

~~Daisy Gomez~~

HENRY PROVSTAN

Melania Uch

~~RLOSTH~~

~~Tom Sivalan~~

Raul Ontiveros

Mark J Hill

Glen J Hill

Jim Hill

Yoshi KAWA

Marti Perez Lopez

FITER DELA CRUZ

Hector Sevilla Jara

~~Alberto Alejandro~~

ALBERTO ALEJANDRO

ROLANDO CINCO

Martin Sanchez

Rafael Zavala Carrasco

JORGE DOMONDON

SCOTT ROSTER

~~Roger O'Neil~~

ROGER O'NEIL

SAMBA WELIE

LOI JO

~~Paul J. Weisenberger~~

~~Paul J. Weisenberger~~

DAT PHAN

PEDRO OLERO

Yimou Puman

Don O. Lee

Kenneth J. McPherson

Paul J. Weisenberger

SOLOMON A DENBEL

~~Juan G. Cisneros~~

JUAN G. CISNEROS

FELIZARDO GABRIEL

Artemio P. Ramos

REY DELETRION

Marco Ochoa

Thomson

Phonvian Ekphank

~~Samuel Sotelo~~

SAMUEL SOTELO

ELMER PASCUA

Gloria Sanchez De Rival

Carlos Gomez

Loren Martion

Michael Whalen

Joseph Marshall

Curtis Murphy

Robert J

Steven Stuby

Mike Pueri

Francis Palacios

Jeffrey

Robert

Mano Lopez

Michael R. Prince

John Kay

Suzanne Jensen

Don Clayson

Steven J. Whit

David Boin

M. Stokke

City

Frank

George A. Yankov

Antonio V. Rodriguez

Cherry M. Ariza

Jose F. Rivas

Jose F. Rivas

Jose F. Rivas

Jose F. Rivas

Manuel Torres

Carlos Maganillo

Alfredo

H. Rodriguez

Quil

Victoria E. Pardo

Felix S. Jimenez

Henry P. Lopez

Antonio Barahona

Yolanda

Alfonso

Stefano

Rogelio Lopez

Mauro G. Solis

ASTER MENESES

Kevin M. Short

Alfonso Jimenez

Randy Lopez

Jode Kolench
~~Jude Kolench~~
~~Jude Kolench~~
I. M. M. M.
Paul Dornan
Lorna Johnson
Hank

TRIE PHAN
Rody Dede
Hank
John Doherty
Mike Perez

Steve Williams
Paul Michael
Randy

~~J. J.~~
Paul Carpenter
Jonah Casarez
RUBY MESSINA
~~Ruby Messina~~
Hank

Maria Kennedy
~~Maria Kennedy~~
FB Galio
~~M. J. Toledo~~
Dewie Castro
Maria Luz Ayon
M. Keane

Julietta Perez
Francis Jean
~~Francis~~
JOANNA VARRON

~~Ernie~~
Medardo Gonzalez
KEVIN ARATA

Daryl R. Johnson
SAN JUAN BAWLONG

~~John~~
John Landin
Cecilia
Hediza Catolos
Rosenda Panoes
Zoraida P. P. P.

[Signature]

[Signature]

Jeff Hunt

Robbie E. Bennett

Mary Kelly

Rosal Schroeder

Verdita Lopez

HONG C. NGAN

Gonzalo Madruca

Gloria Jana

LeRenzo

Eric F. Field

Tony

[Signature]

Ernie Kell

[Signature]

Eduardo P. Milanes

Jim G. M. K.

Junior Alvarado

Manuel P. Malvar

Jose Magbata

[Signature]

Rosal Borstler

Tommy Castillo

Victor Martinez

Francisco J. Dolohan

Marcos Maligaya

Edwin Trow

Edwards S. Pagan

Sandra Sanchez

Odessa M. de Leon

RAMON DAVID

[Signature]

Mark J. P. S.

Dana Krojer

Joseph Sanchez

Melvin Larson

Daniel Bennett

Abel Rodriguez

Olivera

Jose Paul

[Signature]

Shantay

Cavani

Ricardo Sales

Prudencio Guevara

[Signature]

Sharon Reyes

Mal H. G. G.

In Battle

Randall Brook A

Chester Mensior

Bradley King

Eric M. G.

ERIC HOLLER

David Hunter

Noble

David Thomson

W. G. G.

W. G. G.

Annys Wong
V. G. G.

F. Medina

W. G. G.

Timothy E. Short

D. G. G.

Bernardo V. Quinto

Scott H. Miller

Chuck Kent
Ben D. Vannint
~~Erny~~
Roger Kibbe
~~Ly~~
Andrew Potter
Wayne Foster
Judy Spencer
Kathleen
Jeffrey S. Coak
Joseph Jackson
Rene K. Bayley
Julie Thompson
Marcelo S. F. Tal
~~Am~~ Tadesse Feleke
Donga Aligent
Curt
Charles Mann
Joude Brawley
Rodrigo Tumbaga
M. A.
Cory Paul
Karen J. Brinkles
Mel Bussell

W ~~_____~~
Janna Spencer
D. A. M. E. G
Thomas D. Elm

Michael H. Saunders

Alon Richeson

Darin Hoffman

Fernando Barrera-Barrera

Lourdes Barrera

Roselinda Benito

CMJ Jones

Jarice Lavender

Jared Mann

~~Jared Mann~~

~~Jared Mann~~

Rita M. Katz

Daryl Hurling

Ed M. Milo

Victor Soto

Francisco Rodriguez

Eben A. Ruiz I.

Miguel Castillo

Guillermo Gutierrez

Richard S. Luster

James -

Stuart D. Law

John E. Blum

Raquel Benitez

ERICA FLORES

Jan

Virginia Joy Brant

Frank P. Pappas



Department of Justice

FOR IMMEDIATE RELEASE
TUESDAY, MAY 20, 1997

AT
(202) 616-2771
TDD (202) 514-1888

JUSTICE DEPARTMENT APPROVES FISH CATCHERS/PROCESSORS PROPOSAL
TO ALLOCATE AMONGST THEMSELVES THE AMOUNT OF GOVERNMENT-
REGULATED PACIFIC WHITING THEY CAN HARVEST

WASHINGTON, D.C. -- The Department of Justice today approved a proposal by a group of fish catchers and processors that will allow them to allocate amongst themselves the fixed quota of Pacific Whiting allocated to them as a group by the U.S. government.

The Department said that the group's proposal is not likely to have an anticompetitive effect in the regulated output setting.

The group, known as The Whiting Conservation Cooperative, will be created by the four members licensed to operate as catchers and processors of Pacific Whiting--Alaska Ocean Seafood, American Seafoods, Glacier Fish Co., and Tyson Seafood Group.

The Department of Commerce, for environmental and economic reasons, limits the amount of Pacific Whiting that may be harvested from U.S. waters in a given year. In addition to

(MORE)

(MORE)

transferrable. Under the current regulatory plan, the entire sub-allocation of each group of processors may be harvested by each licensed participant. This is referred to as an "olympic" system because it provides each individual processor with the incentive to harvest as much as possible of its sector's total allotment as fast as it can. Any amount not harvested by one member of the group will be lost to other members of the group. The group's proposal allows the companies to enter a harvesting agreement under which the total catcher/processor allotment provided for in the regulatory plan would be divided among the four members in specified proportions. Alaska Ocean Seafood, American Seafoods, Glacier Fish Co., and Wyson Seafood Group will divide amongst themselves the 34 percent that is allotted to the catcher/processor group. The agreement would

Plan allocates harvesting as follows:

- Forty-two percent to on-shore processing plants;
- Twenty-four percent to "mother-ship" processors--ships that have on-board processing capabilities but do not catch the fish; and
- Thirty-four percent to vessels that catch and process their own fish on-board--catcher/processors or C/PS.

Entry into the Whiting fishery is limited. Licenses were issued to qualifying vessels at a prior qualifying date and are

determining the maximum amount of Pacific whiting that may be harvested from U.S. waters, Commerce's regulatory program divides the total quota between three groups of processors. For 1997 through 2001, Commerce's Pacific Whiting fishery plan allocates harvesting as follows:

- 3 -

limit only the harvesting activities of its members. It will expressly disclaim any intent to constrain the production or marketing practices of the member companies. No joint discussions of purchasing, processing, marketing or sales will be engaged in other than as appropriate as part of Commerce's regulatory process or as permitted by that Department's certificated export committee to which three of the members belong.

Pacific Whiting generally is not sold as an end product directly to consumers. Rather, it is primarily used to produce surimi--a protein paste made by repeatedly macerating and washing the flesh of the fish to remove all water soluble fats and other impurities and blending it with certain compounds. Surimi is used as a component in various consumer products in Japan and artificial crab meat in the U.S. Other types of fish are substitutable for Pacific Whiting in the preparation of surimi. Surimi made from Pacific Whiting accounts for approximately four percent of world-wide surimi production.

Joel I. Klein, Acting Assistant Attorney General in charge of the Department's Antitrust Division, noted that the Department of Justice had stated in a prior filing in a Department of Commerce fishing rights regulatory proceeding that utilization of an olympic race system to gather a fixed quota of fish "is both inefficient and wasteful because it is likely to generate inefficient over-investment in fishing and processing capacity."

(MORE)

- 4 -

Klein stated that, "It does not appear that the proposed elimination of the olympic system race to gather the fixed quota of Pacific Whiting would have any incremental anticompetitive effect in the regulated output setting."

Klein also said that to the extent that the proposed agreement allows for more efficient processing that increases the output of the processed Pacific Whiting or raduces the inadvertent catching of other fish species whose preservation is also a matter of regulatory concern, it could have a procompetitive effect.

The Department's position was stated in a business review letter from Klein to counsel for the Whiting Conservation Cooperative.

Under the Department's Business Review Procedure, an organization may submit a proposed action to the Antitrust Division and receive a statement as to whether the Division will challenge the action under the antitrust laws.

A file containing the business review request and the Department's response may be examined in the Legal Procedure Unit of the Antitrust Division, Suite 215, Liberty Place, 325 7th Street, N.W., Department of Justice, Washington, D.C. 20004. After a 30-day period, the documents supporting the business review will be added to the file.

###

97-209



DEPARTMENT OF JUSTICE
Antitrust Division

JOEL I. KLEIN
Acting Assistant Attorney General

*Main Justice Building
950 Pennsylvania Avenue, N.W.
Washington, D.C. 20530-0001
(202) 514-2401 / (202) 616-2645 (f)
antitrust@justice.usdoj.gov (Internet)
http://www.usdoj.gov (World Wide Web)*

May 20, 1997

Joseph M. Sullivan, Esq.
Mundt, MacGregor, Happel,
Falconer, Zulauf & Hall
4200 First Interstate Center
Seattle, Washington 98104-4082

Dear Mr. Sullivan:

This is in response to your request on behalf of the Whiting Conservation Cooperative ("WCC") for the issuance of a business review letter pursuant to the Department of Justice's Business Review Procedure, 28 C.F.R. § 50.6. You have requested a statement of the Department of Justice's antitrust enforcement intentions with respect to the proposal of WCC and its members to allocate amongst themselves the fixed quota of Pacific Whiting that Department of Commerce regulations allow to be taken from U.S. Pacific waters by the group of processors to which the members belong.

The United States Government, for environmental and economic reasons, has determined to limit the amount of certain species of fish that may be harvested from U.S. waters in a given year. This conservation policy is administered by the Department of Commerce ("DOC"). An annual harvest quota has been established for the species that is the subject of this business review request -- Pacific Whiting (also referred to as "hake"). In addition to determining the maximum amount of Pacific Whiting that may be harvested from U.S. waters, DOC's regulatory program divides the total quota between three groups of processors. For the years 1997-2001, the Pacific Whiting Fishery Plan allocates 42% of the total quota to on-shore processing plants, 24% to "Mothership" processors, ships that have on-board processing capabilities but do not catch the fish, and 34% to vessels that catch and process their own fish on-board ("catcher/processors" or "C/Ps"). Entry into the

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Whiting fishery is limited. Licenses were issued to qualifying vessels at a prior qualifying date and are transferable.

Under the regulatory plan, the entire sub-allocation of each group of processors may be harvested by each licensed participant. This is referred to as an "olympic" system because it provides each individual processor with the incentive to harvest as much as possible of its sector's total allotment as fast as it can (any amount not harvested by one member of the group will be lost to other members of the group).

The Whiting Conservation Cooperative will be created by the four members of the proposed harvesting agreement -- Alaska Ocean Seafood (one C/P ship), American Seafoods (five C/P vessels), Glacier Fish Co. (one C/P ship), and Tyson Seafood Group (three C/P ships). They hold all of the licenses issued for the catcher/processor segment of the industry. Alaska Ocean, American and Glacier are also members of an export trading company licensed by DOC to agree on prices and output for surimi in certain export markets. Tyson is not a member of that export trading co.

Under the harvesting agreement, the total C/P allotment provided for in the regulatory plan would be divided among the four members in specified proportions. The agreement limits only the harvesting activities of its members. It disclaims any intent to constrain the production or marketing practices of the member companies. No joint discussions of purchasing, processing, marketing or sales will be engaged in other than as appropriate as part of the DOC regulatory process or as permitted by the DOC-certified export committee to which three of the members belong. Each member agrees to carry DOC-certified observers on each of its vessels so that compliance with the agreement can be monitored. Financial penalties are provided for noncompliance. The members agree to contribute money for research and publication designed to increase the yield of processing and reduce incidental by-catch of non-target species.

Pacific Whiting generally is not sold as an end product directly to consumers. Rather, it is primarily used to produce "surimi", a protein paste made by repeatedly macerating and washing the flesh of the fish to remove all water soluble fats and other impurities and blending it with certain compounds. Surimi is used as a component in various consumer products in Japan and artificial crab meat in the U.S. U.S. Pacific Whiting surimi production constitutes approximately 4% of worldwide surimi production and approximately 6% of Pacific Coast/North Pacific

Page 3

production. By contrast, Alaskan Pollock (from U.S., Russian and Japanese North Pacific fisheries) account for 60% of worldwide surimi production. U.S. produced surimi is primarily shipped abroad. In 1995, approximately 87% was exported to Asia.

You have asserted that the proposed sub-allocation of the quota for catcher/processors amongst all the licensed C/Ps will allow them to avoid the inefficiencies encouraged by the "olympic" system. By removing the artificial urgency from their harvesting, you claim that WCC's members will be able to increase the efficiency of their on-vessel processing (you predict an 18-24% productivity increase from reduced costs and increased yield of finished product from the fish caught), and reduce the amount of incidental by-catch of other fish species that the Government seeks to protect.

On the basis of the information and assurances that you have provided to us, it does not appear that the proposed elimination of the olympic system race to gather the governmentally-fixed quota of Pacific Whiting would have any incremental anticompetitive effect in the regulated output setting in which the harvesting agreement would take place. The Department of Justice has previously stated that reliance on an olympic race system to gather a fixed quota of fish "is both inefficient and wasteful" because it is likely to generate "inefficient over-investment in fishing and processing capacity."¹ From a consumer perspective, the harvesting agreement does not reduce the output of processed Pacific Whiting or the end product into which it is incorporated - surimi. On the contrary, if the Applicant's assertion that "haste makes waste" is true, then eliminating the race will increase processing efficiency and concomitantly the output of Pacific Whiting. Since the prices paid for surimi by consumers, and the prices paid for Pacific Whiting by surimi sellers will be determined by the intersection of supply and demand for surimi, elimination of the race to gather an input whose output is fixed by regulation seems unlikely to reduce output or increase price under any likely scenario.

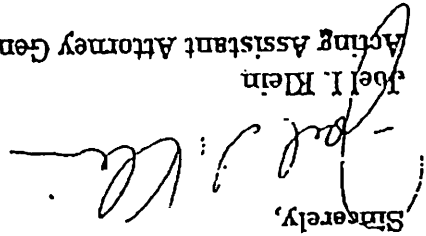
To the extent that the proposed agreement allows for more efficient processing that increases the usable yield (output) of the processed Pacific Whiting and/or reduces the inadvertent catching of other fish species whose preservation is

¹ Comments of the Department of Justice filed in Department of Commerce Docket No. 911215-1315, January 30, 1992 (involving Alaskan Pollock).

also a matter of regulatory concern, it could have procompetitive effects.

For these reasons, the Department is not presently inclined to initiate antitrust enforcement action against the proposed harvesting agreement. This letter, however, expresses the Department's current enforcement intention. In accordance with our normal practices, the Department reserves the right to bring any enforcement action in the future if the actual operation of the proposed agreement proves to be anticompetitive in any purpose or effect.

This statement is made in accordance with the Department's Business Review Procedure, 28 C.F.R. § 50.6. Pursuant to its terms, your business review request and this letter will be made publicly available immediately, and any supporting data will be made publicly available within 30 days of the date of this letter, unless you request that part of the material be withheld in accordance with Paragraph 10(c) of the Business Review Procedure.

Sincerely,

 Joel I. Klein
 Acting Assistant Attorney General

**WHITING CONSERVATION COOPERATIVE:
REDUCING BYCATCH AND
IMPROVING UTILIZATION OF FISHERY RESOURCES**

Summary: A group of Pacific whiting fishers formed the Whiting Conservation Cooperative (WCC) for the purpose of reducing the incidental harvest of non-target species (or bycatch) and better utilizing the whiting resource. The WCC seeks to achieve conservation benefits in the catcher/processor sector of the whiting fishery by agreeing to share catch and bycatch data, and by avoiding a race among vessels to catch as much of the available harvest as possible before the overall quota is reached. Preliminary results of the cooperative effort are encouraging. Bycatch levels were significantly lower during the portion of the 1997 fishery conducted under the cooperative arrangement. Also, fish processors realized a substantial improvement in "yield," or the amount of finished product produced from a quantity of fish.

1. Background.

U.S. fishers harvest whiting in federal waters off California, Oregon and Washington; the 1997 whiting quota is 207,000 metric tons (m.t.). By regulation, 42 percent of the harvest is reserved for vessels delivering their catch to shoreside processing facilities; 24 percent is set aside for catcher vessels delivering to at-sea processing vessels. The balance, 34 percent, is allocated to catcher/processors, vessels which both harvest and process whiting. Whiting is primarily processed into *surimi*, a high protein fish mince used by secondary processors to make a variety of seafood products for retail markets.

Whiting is harvested using mid-water trawl fishing nets. The fishery is one of the "cleanest" fisheries in the world. On average, whiting comprises 99 percent of the catch when trawl fishers haul in their nets. Members of the Whiting Conservation Cooperative (WCC), fishing companies that own and operate vessels licensed to operate in the catcher/processor sector of the whiting fishery, believe that an agreement among signatories to end the race for fish will further improve performance in the fishery.

The WCC is composed presently of four fishing companies operating 10 licensed vessels qualified to catch and process Pacific whiting. The catcher/processor sector of the whiting fishery remains open to any person who purchases the necessary federal limited entry license or licenses. The current WCC participants share catch and bycatch information to help reduce incidental harvests of non-target species. In addition, the whiting harvest is apportioned among those qualified under federal regulations to participate in the catcher/processor portion of the fishery. Agreement among members to harvest no more than a specific percentage of the catcher/processor portion of the whiting quota removes the incentive to race to catch the available quota. As a result, cooperative members are able to take bycatch avoidance measures and improve processing efficiency, without suffering adverse competitive impacts.

The four fishing companies requested that the Department of Justice's Anti-Trust Division review the proposed cooperative fishing arrangement. The Justice Department responded that it did not anticipate any anti-competitive effects of cooperative action. On the contrary, it concluded,

"To the extent that the proposed agreement allows for more efficient processing that increases the usable yield (output) of the processed Pacific whiting and/or reduces the inadvertent catching of other fish species whose preservation is also a matter of regulatory concern, it could have procompetitive effects." (Letter from Acting Assistant Attorney General Joel Klein, May 20, 1997.)

The 1997 Pacific whiting season opened on May 15th, prior to issuance of the Justice Department letter. More than half of the catcher/processors' whiting allowance was harvested before the WCC's agreement was in place. As a result, it is possible to compare the fleet's bycatch and utilization rates during the "race for fish" system with its performance under the cooperative harvest agreement when the race for fish ceased. Preliminary results of the conservation benefits of the cooperative activity are outlined below.

2. Reductions in Bycatch.

Reducing bycatch of all species is an important goal of sound resource management

With regard to the whiting fishery, federal managers, fishers and others, are particularly interested in minimizing bycatch of two species, yellowtail rockfish and Chinook salmon.

Cooperative members voluntarily carry two federal fishery observers onboard their vessels to record catch and bycatch amounts and collect scientific information. The costs of the observer program are borne by the fishing industry participants.

a. Yellowtail Rockfish.

Preliminary results show that the bycatch of yellowtail rockfish declined sharply for catcher/processor vessels fishing under the cooperative arrangement. Prior to implementation of the WCC, the fleet averaged 2.47 kilograms (kg.) of yellowtail rockfish per metric ton of whiting harvested. After the WCC formed, the rate of yellowtail rockfish declined to 0.99 kg. per metric ton of whiting.

During the latter stages of the fishing season, when catcher/processors experienced declining bycatch rates, other sectors of the whiting fishery experienced higher yellowtail rockfish bycatch rates. Assuming that in the absence of cooperative action by the catcher/processor sector, rockfish bycatch rates would have increased also for catcher/processors, it is projected that the WCC initiative resulted in a savings of 100 m.t. of yellowtail rockfish during the 1997 fishing season. Comparing last year's performance with this year's, the National Marine Fisheries Service (NMFS) reports that catcher/processor yellowtail rockfish bycatch rates declined by half from 0.0037 m.t. of rockfish per metric ton of whiting in 1996 to 0.0019 m.t. in 1997.

b. Chinook Salmon.

The Pacific Fishery Management Council, which manages west coast fisheries within the U.S. 200 mile zone, has a bycatch guideline of 0.05 Chinook salmon

per ton of whiting, that is, 5 Chinook salmon per 100 tons. Historically, Chinook salmon bycatch by catcher/processors has been well under the Pacific Council's recommended guideline. In 1996, for example, Chinook bycatch was 0.0095/salmon per ton, or 9.5 salmon per 1,000 m.t. of whiting. In 1997, the catcher/processors' bycatch rate was even lower, 0.0072 Chinook per metric ton, or 7.2 salmon per 1,000 m.t. Salmon bycatch is a random occurrence, and there is insufficient data to conclude that this year's lower bycatch rate reflects changes in fishing patterns under the cooperative agreement. What is known is that the cooperative does allow vessels that encounter salmon bycatch to cease fishing operations and move to different fishing grounds without losing fishing opportunities in the race for fish.

3. Improving Utilization of the Whiting Resource.

Apportioning the catch among participants in the catcher/processor sector removes the incentive to race to maximize catch. Instead, the emphasis is placed on maximizing utilization of the amount of fish assigned to each member of the cooperative. During the first half of the whiting fishery, when vessels engaged in a race for fish, fleet members who were surveyed averaged 17.2% recovery, that is, the percentage of the fish used in making the *surimi* product. After the harvest was apportioned among participants, those same vessels averaged 20.6% recovery, nearly a 20% improvement in yield. (The heads, skin, bones, viscera, and other inedible parts of whiting are used in the production of fish meal onboard many catcher/processors.)

Data on recovery rates for all vessels fishing under the cooperative agreement are still being collected, so final results are not yet available. However, if the performance of the reporting vessels reflects overall fleet performance and can be extrapolated, ending the "race for fish" resulted in an additional 955 m.t. of *surimi* being produced in 1997. That equates to 2.1 million pounds of food. Had the cooperative been in effect for the entire fishing season, these numbers would be even higher.

Another aspect of the cooperative not to be overlooked is that smaller fishing companies particularly benefit from apportioning the catch among cooperative members. The 1997 catcher/processor quota was projected to be caught in just 18 days. Two of the four companies in the cooperative operate one licensed vessel each in the whiting fishery. A substantial portion of a company's annual projected revenues, as well as crew wages, would be lost, if a mechanical failure, or a similar unexpected event, occurred and valuable fishing time was lost.

Overall, the conduct of the cooperative arrangement even for a part of the 1997 fishing season appears to have yielded significant conservation benefits and achieved substantially improved utilization of fishery resources. Additional analysis of the 1997 data is needed, and the program needs to be evaluated as it develops in future years. However, the initial results are promising.

For additional information about the Whiting Conservation Cooperative, please contact the Cooperative's president, John Bundy at ph. 206/298-1200.

**WHITING CONSERVATION COOPERATIVE
PRESENTATION TO PACIFIC FISHERY MANAGEMENT COUNCIL
June 25, 1997**

SULLIVAN: Good morning Mr. Chairman, thank you very much. Joe Sullivan and John Bundy representing the Whiting Conservation Cooperative. The Cooperative is a non-profit organization. It's members are Alaska Ocean, American Seafoods, Glacier Fish Company and Tyson Seafoods Group, which currently represent all of the companies participating in the catcher/processor sector of the at-sea processing fleet in the whiting fishery.

The purpose of the Cooperative is to reduce the bycatch of sensitive species such as rockfish and salmon and to improve utilization of the whiting resource. The method by which the Cooperative is doing so is a harvesting arrangement under which each member agrees to harvest no more than a specific percentage of an annual whiting allocation. By ending the race for fish, members are able to take bycatch avoidance measures and use more selective whiting harvest practices and improve processing efficiency without suffering adverse competitive effect.

The Cooperative is not an ITQ program. There are no individual federal fishing quota allocations per member or per vessel. The catcher/processor sector of the at-sea fishery is still open to access by any entity that purchases the necessary limited entry licenses.

The arrangement has been reviewed by the Antitrust Division of the Department of Justice. The Department has said that the arrangement is not likely to have an anti-competitive effect; rather, to the extent that it increases the whiting product output or reduces bycatch, it could actually have a pro-competitive effect.

At this point I'd like to turn things over to John, who is with Glacier Fish Company. He's prepared to give you a summary of some of the bycatch information and product recovery information associated with the at-sea processing sector.

BUNDY: Good morning Mr. Chairman. As Joe said, the purpose of the Co-op is to, through a cooperative harvesting arrangement, achieve 3 objectives: 1) reduce waste; 2) improve the use of the resource; 3) reduce bycatch. To the extent that these objectives are reached, the basic idea is to conserve resources while taking better care

of the resource, increasing its value in the production of food for human consumption.

I'm going to give you just a few statistics that we have at this point. I hasten to add that this information is preliminary and we really need to go through the 1998 fishery before we can do a thorough analysis. However, based upon this preliminary information, the results look positive. We were able this time to sort of compare the fishery in two halves, because the Co-op did not come into existence until approximately 10-11 days into the fishery. That was because this letter from the Justice Department did not come until we were well into the fishery. We weren't sure frankly what the Justice Department would say and so we were not able and did not want to have a Co-op until the Justice Department gave its positive indications. So in the first approximately 11 days of the fishery this year we were in "open access" mode. In the final part we were in "co-op" mode, if you will. So I'm going to talk about before co-op and after co-op in this year's fishery.

For our company, Glacier Fish, it was 50/50. We had 11 days before co-op and 11 days after co-op in terms of fishing. I'm going to talk about bycatch first, and before I do that I want to say that some of these numbers may give you the impression that we have a big problem. We don't. This whiting fishery offshore is among the cleanest fisheries in the world. It is over 99% pure to start with. However, improvements can be made and that's what we are after and that's what we want to try to measure.

We have two bycatch concerns in this fishery, yellowtail rockfish and Chinook salmon. I want to talk about yellowtail rockfish first. Before co-op this year, among our fleet the CP's [catcher/processors] we had 2.47 kilograms per metric ton. After co-op we had .99. That was a drop of 60%. A lot of things might explain that. You will hear in public testimony that the motherships also have taken corrective actions to reduce their yellowtail bycatch, and they did. During the second part of the season they continued in open access mode. Their rate, although low, increased, while our rate under the co-op decreased. That is evidence and the co-op explains this event. I extrapolated some numbers and I think that the co-op just this year among our sector saved about a hundred metric tons of rockfish. That's 220,000 pounds. Obviously if we had had the co-op since May 15, it would have been better.

Next, I want to talk about utilization of the resource. Before the co-op, the fleet-wide average recovery was 17.2% making surimi. After co-op it was 20.6% as a fleet-wide average. That's an increase of 19.8%. That's approximately 955 metric tons of additional finished product resultant from the co-op. 2.1 million pounds of food. If we had started the co-op at the beginning, to extrapolate these numbers, it would have meant 2400 metric tons more of food. 5.2 million pounds. Just looking at our own company, we have just one boat in this fishery. I noted right away that after co-op our average daily catch went down 15%. Our daily average recovery went up 30%, so we beat the average. So it's plain as day. It's not because the fishing was bad. By the way, this resource appears to be extremely healthy. Fishing was very good throughout this period. We decreased the catch because it just meant smoother flow through to the factory; we could take better care of the fish and their recovery as a result went up and I think that safety increased and the crew was a lot happier because they could work much more regular hours.

Overall bycatch. Let me mention this number. Last year in 1996, overall bycatch among our fleet counting everything was 3.64 kg's per metric ton. This year it was 1.88. That's a decrease of 48%. Let me talk about Chinook real fast. Our fleet-wide Chinook bycatch this year was .007 fish per ton of whiting. That's 7 fish per 1000 tons of whiting. The cap is . . . not the cap, excuse me, but the guidelines set by the Council and NMFS, that Kay King mentioned, is .05 fish per metric ton, so we beat the guideline by 700%.

I could go on but I know you have more important things today to do. I just want to say in closing, we hope this information is useful. We look forward to reporting to you next year after we have another season. Based upon the preliminary numbers we think that the co-op is a good example of how cooperation rather than confrontation and diversive allocation battles can work most effectively to accomplish resource conservation and environmental protection while maintaining a viable fishing industry. If you have any questions, Joe will try to answer them.

Chair: Thanks Joe and John. Bill Robinson.

ROBINSON: Thank you Mr. Chairman. I really don't have any questions; only a comment. I think what you've demonstrated is a very forward looking way of voluntarily or cooperatively managing your fishery. The idea of removing the competitive pressure of fishing has allowed you to simultaneously increase the

economic return from the fishery while addressing critical bycatch issues. So I think the catcher/processor industry ought to be complimented for what you folks have done.

Chair: Nat Bingham.

BINGHAM: Thank you Mr. Chairman. I too would like to add my voice to Bill Robinson's regarding the issue of Chinook salmon. These people that are concerned with protection and restoration of salmon in California, Washington and Oregon would certainly be gratified to hear about the significant progress you're making in protection of some of these stocks which are endangered. The salmon fishing industry is undergoing very severe disruption to try to protect these fish. We're hearing in many of the meetings we go to with folks that have impact on these fish from the perspective of land use. A lot of misinformation is circulating about giant factory trawlers wiping out the salmon and it would be very helpful to me and those of us that are working very hard to get everybody working together to get some literature that we can distribute about your program. I just want to commend you for your efforts and hope that we'll be able to work together in convincing some of these other folks that are having impact on salmon that you're not the problem.

SULLIVAN: Thank you very much for that and I look forward to getting together with you at the next break and we'll make sure we get some of that information to you.

(??): Thank you Mr. Chairman. One thing I was going to bring up I think this is being done. But as part of our cooperative meeting that we had the April meeting with industry fishermen, members of the salmon advisory sub-panel it was understood at that point that we make sure that we share all this kind of information across all the panels so that the salmon folks get this information in a timely so I'm assuming that these summaries and these reports of the incidents of the salmon will be transmitted to all members of SAS so they can see that the industry is really doing a good job on this.

Chair: Any questions or comments for Cooperative representatives? Joe and John thank you. We commend you and appreciate your efforts.

SULLIVAN: Thank you very much Mr. Chairman. Thanks for the time.

Summary.008

Industry Agreement Regarding Inshore/Offshore III

In order to address the various issues identified in connection with the problem statement contained in the Inshore/Offshore III amendment package, the undersigned associations, coalitions, organizations, individuals, and companies hereby agree to petition the North Pacific Fishery Management Council as follows.

The following points are essential elements of the negotiated agreement and must be considered as a package and adopted in their entirety to maintain the industry negotiated agreement.

- (1) Allocations of Bering Sea/Aleutian Islands (BS/AI) Pollock. Beginning with the 1999 fishing year, the allocations of BS/AI pollock shall be divided between three separate sectors and apportioned as follows:

In the Bering Sea.

- a. Inshore Sector: 40%
- b. Catcher Processor Sector: 50.5%
- c. True Mothership Sector: 9.5%

In the Aleutian Islands.

- 1. Inshore Sector: 40%
- 2. Catcher Processor Sector: 60%
- 3. True Mothership Sector: 0%

- (2) Catcher Vessel Operational Area (CVOA). The rules and regulations pertaining to the CVOA shall remain the same.

- (3) "A" Season / "B" Season Split. The apportionment of pollock between the BS/AI "A" and "B" seasons shall remain at 45/55 unless specifically changed by the North Pacific Fishery Management Council during its annual specifications process each year at the December meeting.

- (4) True Mothership Declaration. Vessels wishing to participate in the True Mothership Sector during the term of this agreement shall declare their intent to do so no later than January 15, 1999. Only those vessels declaring by the aforementioned date are eligible to participate in the True Mothership Sector for the duration of this allocation. This declaration pertains to all BS/AI groundfish fisheries. Once a vessel declares to participate as a True Mothership during the term of this agreement that vessel shall be ineligible to participate in either the Catcher Processor or Inshore Sectors for any BS/AI groundfish fishery during the remainder of the amendment term. Such declaration shall be noted on the fisheries permit.

June 12, 1998
3:00 p.m.

(5) Offshore Pollock Co-Operative. The signatories to this agreement will support, if permitted by any and all applicable state and federal law, the formation of an offshore pollock harvesting/processing co-operative modeled after the whiting co-operative that is currently operating in the Pacific Coast whiting fishery.

The co-operative element of this agreement includes, if permitted by any and all applicable state and federal law, the following conditions:

- (a) If there is a co-op, it's members will not transfer capacity into fisheries in which they have not participated; nor shall they participate in such fisheries at levels in excess of their traditional harvest levels.
- (b) If there is a co-op, it's members will not transfer capacity into the Mothership or Onshore Sectors of the Bering Sea or Gulf of Alaska pollock fisheries.
- (c) All vessels participating in the co-op will be obligated to land all product produced from the BS/AI pollock fishery in State of Alaska landing tax jurisdiction or to make an equivalent payment in lieu of the applicable taxes.
- (d) The co-op would require that the participating companies will insure that the CDQ program will not be disadvantaged by the harvesting arrangement.
- (e) The companies participating in the co-op will make arrangements to insure that catcher vessels that have traditionally made deliveries to catcher processors will not be disadvantaged by the harvesting arrangement.

(6) Sea Lion Research. The parties hereto pledge their continuing support for research into the cause or causes leading to the decline in the population of Steller Sea Lions and other species of marine mammals in the North Pacific; for studies designed to identify linkages, if any, between commercial fishing activities and the declines in such marine mammal populations; and for the development of techniques/procedures to ameliorate the impacts, if any, that commercial fishing activities may have on the populations of such species.

(7) Term of Amendment. The amendment shall be reviewable at the end of three (3) years to see if any changes and/or modifications are necessary to better address management issues associated with the BS/AI pollock fishery. The three (3) sector split shall be subject to annual renewal. *In the event of non-renewal the split will be 40% on-shore & 60% offshore, a 2) two-way split.*

(8) Small Vessel Set Aside. One half (1/2) of the five (5) percent increase to the Onshore Sector, which is 2.5% of the BS/AI Pollock TAC, shall be made available for vessels under 125' for delivery to the Onshore Sector.

June 12, 1998
3:00 p.m.

Signed by:

At-sea Processors Association

North Pacific Seafood Coalition

Mid Water Trawlers

United Catcher Boats

June 11, 1998
1:45 p.m.

Industry Agreement Regarding Inshore/Offshore III

In order to address the various issues identified in connection with the problem statement contained in the Inshore/Offshore III amendment package, the undersigned associations, coalitions, organizations, individuals, and companies hereby agree to petition the North Pacific Fishery Management Council as follows.

(A) The following six (6) points are essential elements of the negotiated agreement and must be considered as a package and adopted in their entirety to maintain the industry negotiated agreement.

- (1) Allocations of Bering Sea/Aleutian Islands (BS/AI) Pollock. Beginning with the 1999 fishing year, the allocations of BS/AI pollock shall be divided between three separate sectors and apportioned as follows:

In the Bering Sea.

- a. Inshore Sector: 40%
- b. Catcher Processor Sector: 50.5%
- c. True Mothership Sector: 9.5%

In the Aleutian Islands.

- 1. Inshore Sector: 40%
- 2. Catcher Processor Sector: 60%
- 3. True Mothership Sector: 0%

- (2) Catcher Vessel Operational Area (CVOA). The rules and regulations pertaining to the CVOA shall remain the same.
- (3) "A" Season / "B" Season Split. The apportionment of pollock between the BS/AI "A" and "B" seasons shall remain at 45/55 unless specifically changed by the North Pacific Fishery Management Council during its annual specifications process each year at the December meeting.
- (4) True Mothership Declaration. Vessels wishing to participate in the True Mothership Sector during the term of this agreement shall declare their intent to do so no later than January 15, 1999. Only those vessels declaring by the aforementioned date are eligible to participate in the True Mothership Sector for the duration of this allocation. This declaration pertains to all BS/AI groundfish fisheries. Once a vessel declares to participate as a True Mothership during the term of this agreement that vessel shall be ineligible to participate in either the Catcher Processor or Inshore Sectors for any BS/AI

June 11, 1998
1:45 p.m.

groundfish fishery during the remainder of the amendment term. Such declaration shall be noted on the fisheries permit.

- (5) Offshore Pollock Co-Operative. The signatories to this agreement will support, if permitted by any and all applicable state and federal law, the formation of an offshore pollock harvesting/processing co-operative modeled after the whiting co-operative that is currently operating in the Pacific Coast whiting fishery.

The co-operative element of this agreement includes, if permitted by any and all applicable state and federal law, the following conditions:

- (a) If there is a co-op, it's members will not transfer capacity into fisheries in which they have not participated; nor shall they participate in such fisheries at levels in excess of their traditional harvest levels.
- (b) If there is a co-op, it's members will not transfer capacity into the Mothership or Onshore Sectors of the Bering Sea or Gulf of Alaska pollock fisheries.
- (c) All vessels participating in the co-op will be obligated to land all product produced from the BS/AI pollock fishery in State of Alaska landing tax jurisdiction or to make an equivalent payment in lieu of the applicable taxes.
- (d) The co-op would require that the participating companies will insure that the CDQ program will not be disadvantaged by the harvesting arrangement.
- (e) The companies participating in the co-op will make arrangements to insure that catcher vessels that have traditionally made deliveries to catcher processors will not be disadvantaged by the harvesting arrangement.

- (6) Sea Lion Research. The parties hereto pledge their continuing support for research into the cause or causes leading to the decline in the population of Steller Sea Lions and other species of marine mammals in the North Pacific; for studies designed to identify linkages, if any, between commercial fishing activities and the declines in such marine mammal populations; and for the development of techniques/procedures to ameliorate the impacts, if any, that commercial fishing activities may have on the populations of such species.

(B) To achieve the broadest possible industry support the following two (2) points are strongly supported by the industry. We encourage the council to give full consideration to these two points.

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(page attached)*

June 11, 1998
1:45 p.m.

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See attached
Page*

- (1) Term of Amendment. The amendment shall be reviewable at the end of five (5) years to see if any changes and/or modifications are necessary to better address management intersectoral issues associated with the BS/AI pollock fishery. The provisions of this amendment relating to the Community Development Quota (CDQ) Program for Bering Sea pollock shall be reviewable at the end of three (3) years to coincide with the expiration of the current moratorium on increase in the percentage of BS/AI pollock allocated to the CDQ program.
- (2) Vessel Size Restrictions. The allocation provided to the onshore sector shall be available for harvest by all vessels otherwise qualified to participate in the BS/AI pollock fisheries, regardless of size or length.

Signed by:

At-sea Processors Association

North Pacific Seafood Coalition

June 12, 1998
3:00 p.m.

(5) Offshore Pollock Co-Operative. The signatories to this agreement will support, if permitted by any and all applicable state and federal law, the formation of an offshore pollock harvesting/processing co-operative modeled after the whiting co-operative that is currently operating in the Pacific Coast whiting fishery.

The co-operative element of this agreement includes, if permitted by any and all applicable state and federal law, the following conditions:

- (a) If there is a co-op, it's members will not transfer capacity into fisheries in which they have not participated; nor shall they participate in such fisheries at levels in excess of their traditional harvest levels.
- (b) If there is a co-op, it's members will not transfer capacity into the Mothership or Onshore Sectors of the Bering Sea or Gulf of Alaska pollock fisheries.
- (c) All vessels participating in the co-op will be obligated to land all product produced from the BS/AI pollock fishery in State of Alaska landing tax jurisdiction or to make an equivalent payment in lieu of the applicable taxes.
- (d) The co-op would require that the participating companies will insure that the CDQ program will not be disadvantaged by the harvesting arrangement.
- (e) The companies participating in the co-op will make arrangements to insure that catcher vessels that have traditionally made deliveries to catcher processors will not be disadvantaged by the harvesting arrangement.

(6) Sea Lion Research. The parties hereto pledge their continuing support for research into the cause or causes leading to the decline in the population of Steller Sea Lions and other species of marine mammals in the North Pacific; for studies designed to identify linkages, if any, between commercial fishing activities and the declines in such marine mammal populations; and for the development of techniques/procedures to ameliorate the impacts, if any, that commercial fishing activities may have on the populations of such species.

(7) Term of Amendment. The amendment shall be reviewable at the end of three (3) years to see if any changes and/or modifications are necessary to better address management issues associated with the BS/AI pollock fishery. The three (3) sector split shall be subject to annual renewal. *In the event of non-renewal the split will be 40% on-shore + 60% offshore, a 2) two-way split.*

(8) Small Vessel Set Aside. One half (1/2) of the five (5) percent increase to the Onshore Sector, which is 2.5% of the BS/AI Pollock TAC, shall be made available for vessels under 125' for delivery to the Onshore Sector.