Summary of Tom Sunderland's testimony to the Alaska House Fisheries Committee on HB 204.
Testimony given Thursday, February 6, 2014

Ocean Beauty Seafoods is a shoreside processor with six plants in Alaska. Our hope is to use this tax credit to modernize our shoreside facilities that can salmon and herring. I am going to give a market-based testimony based on salmon.

The first thing to know about the existing Salmon Product Development Tax Credit is that it worked. It was successful in helping lift the industry out of a time of low value by helping processors to diversify product offerings, and through that product diversification, diversify markets. As a result the industry is far less vulnerable to being held hostage by overreliance on either a single market, such as Japan, or a single product form, such as traditional canned salmon.

This bill is necessary to defend these gains. We are now seeing the market push back against the higher prices our products now command. It is not the case that we can forever raise prices – consumers at some point will resist. They don't necessarily see the value in a tall can of red salmon or a four ounce package of smoked sockeye that approaches $10.

Consumers don't buy these types of products by the pound, as they do fresh fish, but buy based on absolute price as they do with other packaged goods. Consider the examples of canned tuna or even breakfast cereal – those items routinely and successfully downsize their packaging as a way of mitigating absolute price on the shelf. Tuna is now sold in the US primarily in 5oz cans. The Australian tuna market is dominated by 95g (3.3 ounce) cans. They can do this much more easily than we can due to the year-round nature of their business and their location on road systems. We need this tax credit to give us the ability to respond to this market pressure and reduce the size of the cans and the shelf price. If we don't do this we risk becoming an irrelevant product to many consumers and retail customers.

While price is a primary motivator for this, price is not the only driver of this change. This move toward smaller cans is also driven by permanent household demographic changes: smaller households don't require as much food as larger ones. A smaller can is more convenient, results in less waste, costs less, and is therefore more attractive in most ways.

Gaining value from currently worthless byproduct is one of the best weapons we could have to defend the industry's price gains. We can't always expect the value of the flesh to appreciate, or to maintain current levels, but converting byproduct into saleable product is a pure win for the Alaskan industry and could hedge against price declines.

Byproduct utilization also provides us with the added benefit of keeping the EPA off of our back as they inevitably change remote discharge regulations. Every pound of byproduct we are able to manufacture into saleable product helps Alaska both directly through added value and by helping the industry deal with these new regulations.