

PSPA
PACIFIC SEAFOOD PROCESSORS ASSOCIATION
Est. 1914

March 25, 2009

Senator Bert Stedman, Co-chairman
Senator Lyman Hoffinan, Co-chairman
Senate Finance Committee
Alaska Legislature
State Capitol
Juneau, AK 99801

RE: SB1 Alaska Minimum Wage

Dear Senators Stedman and Hoffinan,

Pacific Seafood Processors Association (PSPA) and its member companies with processing plants in many Alaska communities are very concerned about proposed legislation to significantly raise Alaska's minimum wage and want to make sure legislators are aware of the economic impacts that such an increase, coming at this time, could have. This action could negatively impact not only the seafood processing industry and its workforce, but also fishermen, other businesses, communities, and state revenues that depend on a healthy, viable seafood industry.

PSPA is a trade association of seafood processing companies with operations in many locations throughout coastal Alaska, including Ketchikan, Sitka, Kodiak, Unalaska/Dutch Harbor, Valdez, Dillingham, Naknek, Pederson Point, Togiak, Port Moller, and King Cove. Our member companies purchase, process, and market millions of pounds of Alaska seafood every year. They provide thousands of direct and indirect jobs in Alaska, markets to fishermen, and millions of dollars in tax revenues to Alaska communities and the State.

A huge portion of the operating costs of the seafood processing industry is the cost of labor. While the starting wage for many entry level positions is minimum wage, most employees move up from that wage quickly. However, as a practical matter, a mandated pay hike at the entry level requires pay scales above that to move up accordingly. Much of the seafood workforce works many hours of overtime at 'time-and-a-half' pay, bringing their average hourly pay to considerably higher than their base wage. Additionally, companies often cover the high cost of transportation for employees to and from remote locations, as well as provide them with room and board. Many also provide health benefits and 401-K plans. Thus, while many entry level workers are nominally "minimum wage workers," their total compensation package is far better than simple wage tables might indicate.

While the effects of the current worldwide economic recession have been slower in manifesting themselves in Alaska than in many other areas, the seafood industry is now seeing that freight train coming right at it. Please see the attached article from Seafood.com entitled, "Another Shoe to Drop: Credit Woes in the Seafood Industry." As the article explains, even seafood companies with good access

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to credit for their operations are finding that many of their customers – even major, long time customers of Alaska seafood – are having trouble getting credit. Additionally, insurance to protect against losses due to customers that default on their purchases is getting harder and harder to obtain. At the retail end, budget-conscious consumers are dining out less often and seeking lower-priced proteins than seafood for their meals in restaurants and at home. Seafood markets are tightening, profit margins are shrinking, and the ability of the seafood processing industry to absorb extra costs is evaporating. Given the economic climate, it is not realistic to think that extra costs can be passed along to the consumer.

The options and choices that would be available to seafood companies faced with a significant increase in labor costs under current circumstances are not good ones. They would have to consider actions such as spending less on supplies and services in local communities; postponing plant maintenance and upgrades; closing some plants that are already only marginally profitable; reducing or eliminating worker benefit packages; replacing some of their workforce with more mechanization; lowering prices paid to fishermen to obtain raw product; and reducing expenditures on the kinds of quality improvements and new product development that keeps Alaska seafood competitive in world markets. Seafood companies don't want to have to take *any* of those actions. However, the current economic situation is an extraordinary one and an increase in labor costs right now would likely result in the need for some painful actions.

With the upcoming hike in the federal minimum wage, Alaska's seafood industry, like most other employers, will be absorbing a 10-cent hike in minimum wage this July, just as the industry enters the peak of the salmon season and the summer pollock season. With the large amount of overtime pay that workers earn in this industry, even the 10-cent hike will equate to millions of dollars in additional labor costs to the processing industry.

In the last few weeks economists have noted an increase in unemployment in Alaska and signs that Alaska will enter an economic recession this year. PSPA respectfully requests that the legislature carefully consider the potential short and long term ramifications of substantially increasing labor costs for Alaska businesses at this time of economic uncertainty. Our member companies very much appreciate and value their employees and want to be able to keep them well-employed. Under current economic conditions, they believe that that can best be achieved without another increase in minimum wage.

Please feel free to call on our association or member companies if you would like to discuss the concerns we have outlined.

Sincerely,



Mary McDowell
Vice President

enclosure

cc: Members of the Senate Finance Committee

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Another Shoe to Drop: Credit woes in the Seafood Industry (editorial)

SEAFOOD.COM NEWS by John Sackton - March 18, 2009 - (editorial comment and analysis)

The first two days of the Boston Seafood Show were very upbeat - but I left the show at the end of the day yesterday feeling a little more somber.

The problem: The seafood industry is about to see much more fallout from the credit crunch.

On both coasts, and in Canada and Alaska, seafood producers are gearing up for a new season. That means they have to buy fish and shellfish, build up inventories, and then sell down those products over the course of the year.

In many fisheries, there are two or three players who - due their access to capital, strong balance sheets, or strong sales channels - are able to finance large amounts of product and take a position. Their activities stabilize prices and their financial resources set a foundation on which the rest of the industry operates - mostly as competitors - either forced to match their purchase prices, or able to bid product away (in smaller volumes) by paying higher prices or in some cases selling at lower prices, or sometimes doing both and just operating on much thinner margins.

My worry today, as I left the show, was how strongly these dominant buyers would show up this year, and if so, would they be financially strong enough. And if they show up, as I believe they will, what about the smaller companies operating on the thinner margins. Many will be at risk.

Here is the problem: over the past six months there has been a tremendous deleveraging of bank and insurance company exposure to credit risk. One of the major ways credit risk is handled in the seafood industry is through receivables insurance, and financial covenants from lenders like banks that limit the amount of exposure a seller has to particular customers.

Banks and insurers have been chopping these limits down as fast as they can - so that major national chains may not even qualify for credit insurance, or their receivables may not count towards maintaining the financial ratios that some companies are required to maintain.

Now word at the show is that some of the larger seafood companies may be being told by their banks that their credit lines are being marked down due to the lower amount of credit risk and receivable risk the lenders feel comfortable with.

All of a sudden a new fishing season is opening when most every company will want to be dealing on a cash basis: buy the product, turn it over for cash, buy more product. Few companies will take the risk to buy and hold - so it is an open question as to where price and market stability will come from. On an aggregate basis, there may be far less money available to finance the seafood buy than was available last year.

This is a recipe for more bankruptcies and consolidation in the industry. The company that can carry the cost of an item for 4 to 8 weeks will be stronger than the company that needs a cash turn in 7 days. In some cases, this is going to force companies out of business and lead to more consolidations.

The recent bankruptcy in Denmark of Hesselholt - a \$120 million company with two processing plants and 160 employees - was clearly brought about by cutbacks in their customers' ability to get credit insurance. Their salmon plant, which produced 12,000 tons a year, was shut down less than two weeks before the entire company entered administration. This week, they elected to shut the entire company.

At the time, Managing director Claus Raabye said that the withdrawal of credit insurance from their customers was the primary reason. As the customers lost their credit insurance, the ability of Hesselholt to make sales got more and more restrictive, likely due to the fact that their own lenders required such coverage. Eventually the plant reached a tipping point where sales would not cover expenses.

In the UK, credit insurance coverage was pulled from Brakes - a broadline foodservice distributor who also owns a fresh fish distributor, M&J Seafoods. All of a sudden some companies could no longer sell to M&J except for cash.

In France, some fish is being left unsold on auctions due to the lack of buyers for the first time in many years, because buyers are pulling back their volumes to what they can sell for cash and a more limited pool of approved customers with credit insurance.

In the U.S., the potential fallout from this situation is very bleak. First, it will mean more bankruptcies and shut downs for seafood companies that are pushed over the brink when they cannot maintain the sales volumes needed to operate. They are squeezed when they can't get the credit to buy products, and they can't get the agreements to finance receivables. The result is a smaller and smaller pool of actual sales to cover operations.

Secondly, it will put severe pressure on prices. Some species, like lobster and cod, have already seen dramatic declines of up to 50% from their highs in the past year or two. Others are holding their price levels for now, but in some cases the new season production has not yet started - and that is when the pressure to turn product for cash will become stronger.

So the upbeat mood of the show - where many serious buyers want to buy seafood - has to be tempered with the reality that many won't have credit coverage to afford it, and companies who do sell will survive only by taking on more risk.

Some will undoubtedly not make it. They will experience a catastrophic loss from a customer bankruptcy that is not covered, or they will simply not be able to turn over enough sales to cover expenses. So I left the show with a knot in my stomach over the economic upheavals still to come.

John Sackton, Editor And Publisher
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