

February 27, 2016

House Fisheries Committee
Representative Louise Stutes, Chair
Alaska State Legislature
State Capitol,
Juneau, AK 99811

Chairman Stutes and Committee Members;

In the discussion about resource extraction taxes, it is important to recognize the uniqueness of the commercial fishing industry.

First and foremost, commercial fishing is a renewable, sustainable resource. Proper management and habitat protection ensures this industry will be still be contributing to the state's economy long after the last drop of oil and the last mineral is taken.

Secondly, the structure of the industry is unique in that our industry is composed of many small independently owned businesses, the harvesting sector, and the processing sector.

The processing sector provides infrastructure that allows the harvesting sector to harvest millions of pounds of seafood in a constricted window of time. They provide jobs and property tax to the municipalities that are lucky enough to have them. It is apparent that it some processors will pay more in the current structure than others because they produce canned fish. This could and probably does effect their ability to be competitive. That's not good for the harvest sector. Processors have certain fixed costs associated with their business. So does the harvest sector. The one difference between the two is that the processing sector can control one of their major costs. The price they pay for fish.

The harvesting sector gives processors the only avenue they have to the resource. Getting that access brings competition into the processing sector. Harvester's can't control any of their costs. They get payed what the market will bear, relying on competition amongst buyers to get the highest price possible for their product. To keep processors competitive, there needs to be a level playing. Different tax regimes for product forms is not the way to do that. If we do see this tax increase, it should be structured in a manner that promotes not only competition amongst processors, but also to promote different product forms. Moving forward, different product forms will be key for our industry being competitive in a world market.

It is apparent that any tax increase on industry will be ultimately paid by the harvest sector. In fact every regulation, tax, minimum wage requirement, etc., that is put on the processing sector will and does effect the price paid to harvesters. We all understand that is how business works.

There have been many changes in the industry since our current tax regime was imposed. In the 80's, Alaska commanded a market share of 60-70% of the worlds salmon. Now we are somewhere in the 10-13% range. That's the bad news. The good news is that the world is eating a lot more salmon. Our industry is facing and has faced many challenges. There will more. It is important in considering an increase in taxes that both sectors remain viable and

profitable. We know the resource is sustainable, and the business models that add so much to our state's economy need to be as well.

In listening to this committee, I have heard many questions regarding the Department of Fish and Game. The economic platform that is commercial fishing, in my mind, has three legs. The two sectors of industry and the department. Industry relies heavily on the departments ability to manage our fisheries to the maximum sustained yield. Real time data is vital for that. Looking at the proposed cuts the department has offered up for the region I fish in the last couple of years has me a little worried. I'm not sure how they will play out. It is a leap of faith. Generally speaking, I believe the department has done a stellar job on most levels. While I realize that every department in the state will be seeing cuts in spending, my hope is that any cuts to the Department of Fish and Game will not effect their ability to manage our fisheries to it's full economic potential. I have heard some fishermen express the notion that an increase in our taxes will help fund fish and game to manage our resource. While that is a pleasant thought, reality dictates that is not the case, although it is my hope that the legislature would consider any increase in tax on the industry as incentive for keeping cuts to the department to a minimum.

In closing, I appreciate the work this committee has done with this bill. I appreciate Chairman Stutes holding the bill for comment and input. Comments and questions generated from members gives me some hope that a comprehensive plan to address the dark fiscal landscape that is our state can be addressed in a reasonable, responsible, and fair manner.

Sincerely,

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