

Response to Request on Impact of Seafood Product Development Credit

Analysis conducted by McKinley Research Group (MRG) on behalf of the Alaska Seafood Marketing Institute (ASMI) and in coordination with Pacific Seafood Processors Association (PSPA)

Background:

The Salmon Product Development Credit was enacted by the Alaska legislature in 2003. The first credits were claimed against Fisheries Business Tax filings in 2004. Herring was added in 2014. An average of \$2.3 million has been provided in credits each year since program inception, with an annual maximum of \$4.5 million (nominal values/not adjusted, Table 1 below). The majority of the value-added credit has been used for salmon-related investments to-date. Therefore, this analysis focuses on salmon, particularly sockeye and pink salmon, as those species represent the greatest value and volume.

Conclusion:

The Seafood Product Development Credit:

- 1) incentivizes higher utilization and value from each fish; and
- 2) provides a net gain to the State of Alaska and local communities by creating more and higher value products which generate higher tax (General Fund) revenue.

The tax credit has directly contributed to the generation of an additional \$114.4 million in new revenue to the State of Alaska general fund due to product form changes and the resulting increase in product value. The analysis shows there is a cumulative increased value in the years after the tax credit was enacted (2004 – 2019) of \$5.1 billion for all salmon species. In a round estimate, applying the fisheries business tax rate of 3% yields a gross tax revenue of \$151.7 million. \$37.3 million in total credits were paid over that period, resulting in cumulative ‘added’ revenue of \$114.4 million to the State of Alaska general fund. The following outlines the changes in products and value that supported this increase.

The composition of Alaska salmon products changed after the tax credit, to higher value products:

- Canned production volume decreased from >40% of all Alaska production in the three years prior to the tax credit (2000-2002) to <20% in recent years (2017-2019)
- Frozen production (including fillet and H&G) increased from 50% to ~75% of production.

The value of Alaska salmon products increased in the years after the tax credit:

- Pounds of salmon purchased during the 25-year period (1985 to 2019) in this analysis remain relatively constant, generally in a range between 600-800 million lbs
- The difference in annual first wholesale value from the year before the tax credit was enacted compared to 2019 is more than \$1.1 billion (2003 = \$586.5 million; 2019 = \$1.76 billion).

Examples:

- Pink salmon saw a significant shift in product form, with canned salmon dropping from >70% of production to an average of <30% of production in the most recent 5-year period. Growth in first wholesale value is a direct result of the growth of frozen product forms, beginning at the time of the implementation of the tax credit (2003 = \$260.8 million; 2019 = \$478.6 million).
- Sockeye salmon frozen fillet production has come to represent an important and higher value component of total sockeye products. In 2003, frozen fillet was only 3% of the total frozen product category for sockeye. In the last five years (2013-2019), it represents an average of 19%. Growth in first wholesale value of sockeye salmon increased significantly (2002 = \$290.0 million; 2019 = \$950.3 million).

Appendix: Details to support above conclusions

Assumptions and notes:

1. Not all changes in product composition and value are directly related to the tax credit. Multiple other factors affect investment and market value. As a result, it would not be appropriate to assign 100% of the value increase to this program. That said, product form composition is amply demonstrated to have changed during the life of this program, with a correlating increase in value. There is a strong case to be made for attributing at least some portion of this shift to the retooling that the tax credit supported.
2. Dollar values are adjusted from nominal to real dollars, using an inflation/deflation factor based on Gross Domestic Product (GDP). This excludes the values for the actual tax credits and for ex-vessel value (which is compared directly to tax credits) as it could be confusing for people who might be looking at a department-generated source and see discrepancy.
3. Some time series data are presented in two-year rolling averages, to account for the year-to-year variability associated with pink returns (odd years). For example, where noted, data presented for 2019 are the 2018-2019 average, etc.
4. State of Alaska fisheries business taxes are based on a percentage of ex-vessel value. Ex-vessel and first wholesale revenue do trend in the same direction over time. This is important to understand relative to the conclusions on state tax revenue and the figures on first wholesale value (which are necessary to show changes in product type and related value).

Data sources used (all public):

- First wholesale and ex-vessel values and volumes:
 - Alaska Dept of Fish and Game, Commercial Operators Annual Report (COAR)
- Value/composition by product forms:
 - COAR
 - Alaska Salmon Price Report (ASPR)
- Salmon and Herring Product Development Credit; total Fishery Business Taxes and Tax Sharing
 - Alaska Dept of Revenue, Indirect Expenditures Report (FY09-FY19)
 - Alaska Dept of Revenue, Alaska Tax Division Annual Report (FY04-FY08)

Table 1. Salmon and Herring Product Development Credit

<http://tax.alaska.gov/programs/documentviewer/viewer.aspx?1083r>

	Salmon and Herring Tax Credit	Fishery Business Tax Revenues			
		Total FBT Collected	Retained in General Fund	Shared with Munis	DCCED Muni Allocation
FY20*	\$ 2,293,191	\$ 43,920,977	\$ 24,062,104	\$ 19,426,547	\$ 432,325
FY19	\$ 3,092,027	\$ 45,365,281	\$ 21,273,319	\$ 23,619,878	\$ 472,084
FY18	\$ 4,507,134	\$ 46,228,406	\$ 21,233,059	\$ 23,710,558	\$ 1,284,789
FY17	\$ 3,255,429	\$ 38,330,171	\$ 15,462,925	\$ 21,245,655	\$ 1,621,591
FY16	\$ 3,939,376	\$ 39,901,481	\$ 22,251,627	\$ 16,235,168	\$ 1,414,686
FY15	\$ 945,621	\$ 44,407,109	\$ 21,316,683	\$ 21,479,070	\$ 1,611,355
FY14	\$ (397,376)	\$ 53,029,538	\$ 26,535,912	\$ 24,912,169	\$ 1,581,457
FY13	\$ 1,832,081	\$ 48,005,296	\$ 22,941,727	\$ 23,165,321	\$ 1,898,248
FY12	\$ 71,598	\$ 53,097,514	\$ 26,445,504	\$ 24,576,578	\$ 2,075,432
FY11	\$ 2,057,255	\$ 44,462,246	\$ 20,091,857	\$ 22,216,898	\$ 2,153,491
FY10	\$ 4,074,071	\$ 31,945,400	\$ 14,003,278	\$ 16,255,158	\$ 1,686,964
FY09	\$ 3,121,697	\$ 42,235,590	\$ 19,295,454	\$ 21,304,498	\$ 1,635,638
FY08	\$ 4,501,973	\$ 34,992,328	\$ 14,803,294	\$ 18,268,399	\$ 1,920,635
FY07	\$ (415,745)	\$ 35,589,331	\$ 17,979,494	\$ 16,079,365	\$ 1,530,472
FY06	\$ 3,058,516	\$ 32,487,173	\$ 15,350,930	\$ 15,268,647	\$ 540,723
FY05	\$ 2,314,258	\$ 25,559,474	\$ 10,335,462	\$ 13,485,788	\$ 400,670
FY04	\$ 1,369,408	\$ 29,244,605	\$ 14,864,413	\$ 12,672,941	\$ 402,050
FY 04 - 19	\$ 37,327,323				

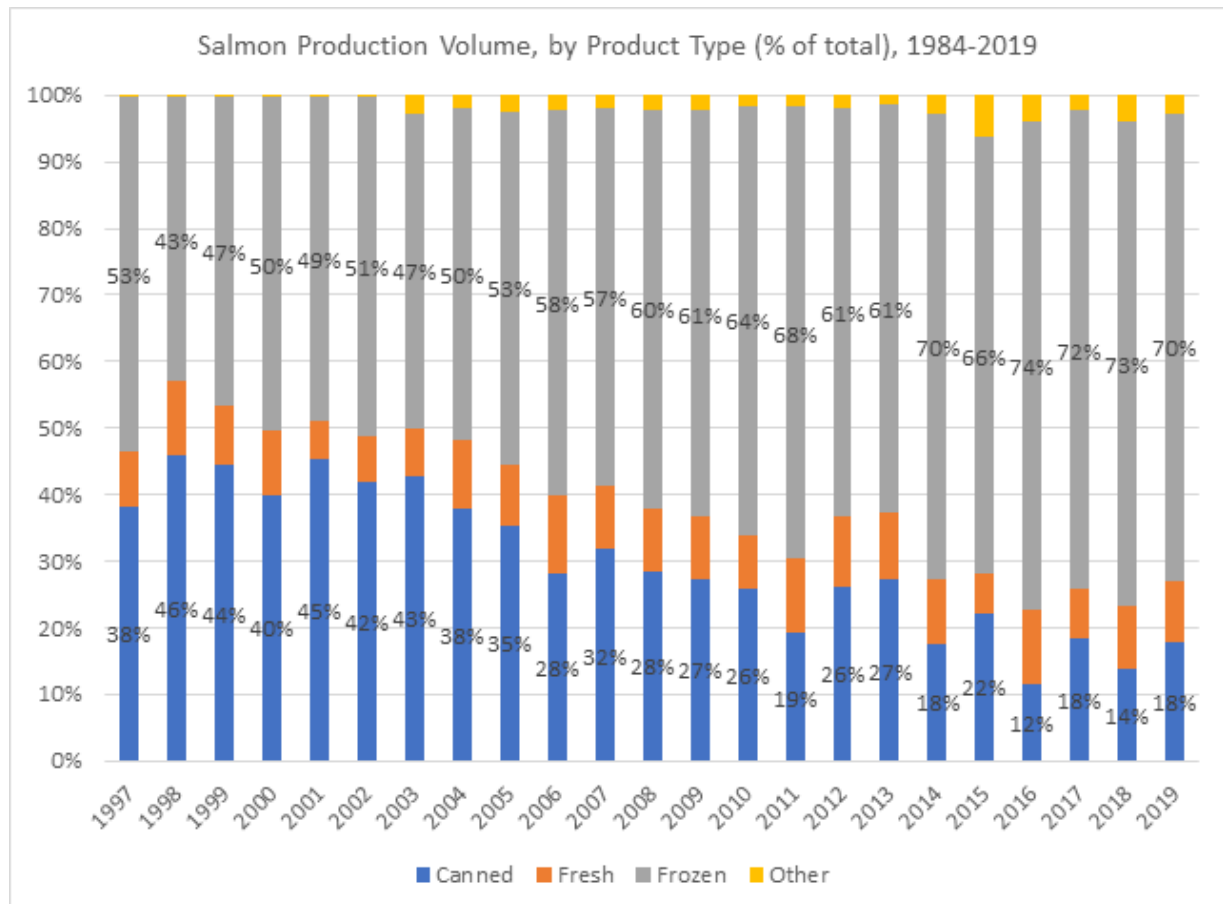
*tax credit for FY20 is preliminary

Note: Figures are Fisheries Business Tax only; does not include Fishery Resource Landing Tax

Detailed Analysis of Shifts in Production Composition for All Alaska Salmon Species (Aggregate)

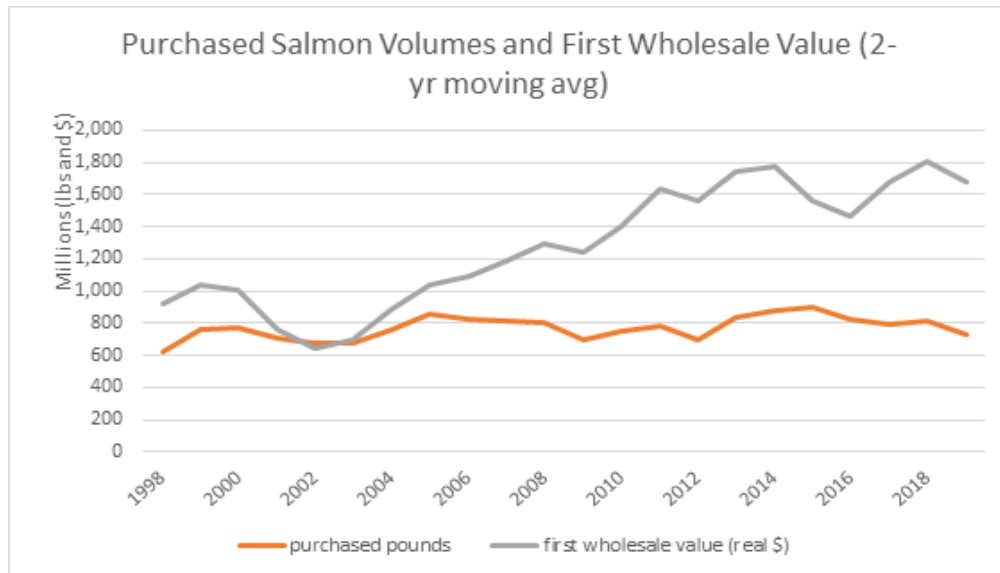
Takeaway 1: (figure below)

- Canned production value shifted from approximately >40% of all Alaska production in the three years prior to the tax credit enactment (2000-2002) to <20% average 2017-2019.
- Frozen production (including fillet and H&G) increases from half to three-quarters of production.
- Fresh production varies by year and is in single digits as a percentage of production, but volume itself increases eight-fold or more after the tax credit.



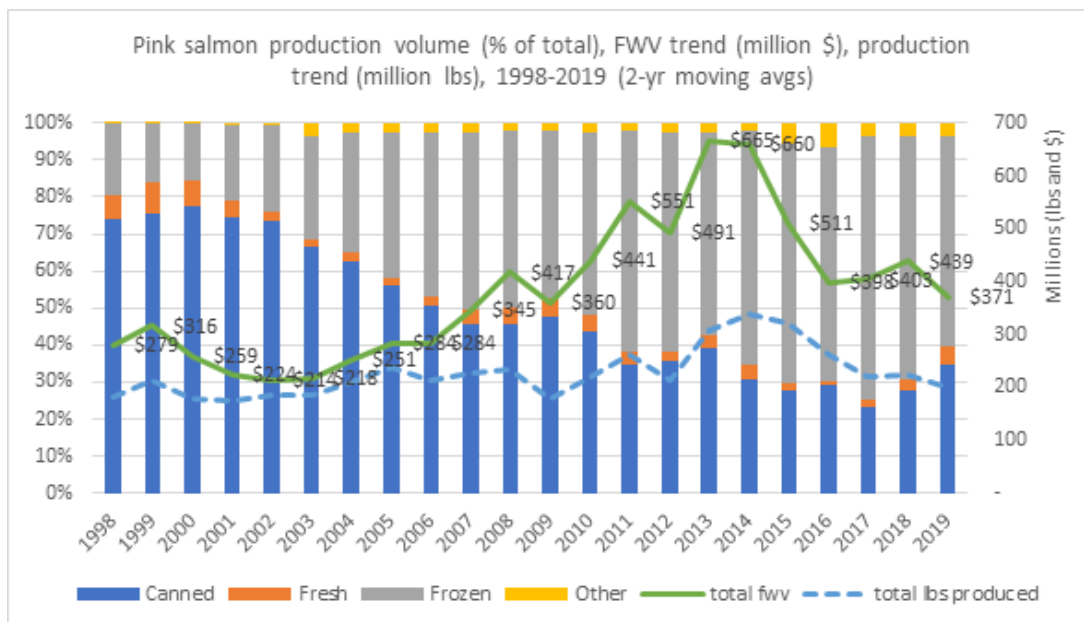
Takeaway 2: (figure below)

- Pounds of salmon purchased during the 25-year period from 1985 to 2019 remain relatively constant, generally in a range between 600-800 million lbs.
- First wholesale value in 2002 (the year before enactment of the tax credit) marks a 15-year low and is the bottom of a downward trend that initiates in the mid-1990s (around the time farmed salmon begins to make significant market headway).
- Total first wholesale value trends steadily upward from that point forward, though with a dip in 2015 and 2016 that corresponds with low pink salmon returns.
- The difference in annual first wholesale value from 2003 (the year the tax credit was enacted, \$586.5 million real value at first wholesale) to 2019 (\$1.76 billion) is more than \$1.1 billion.



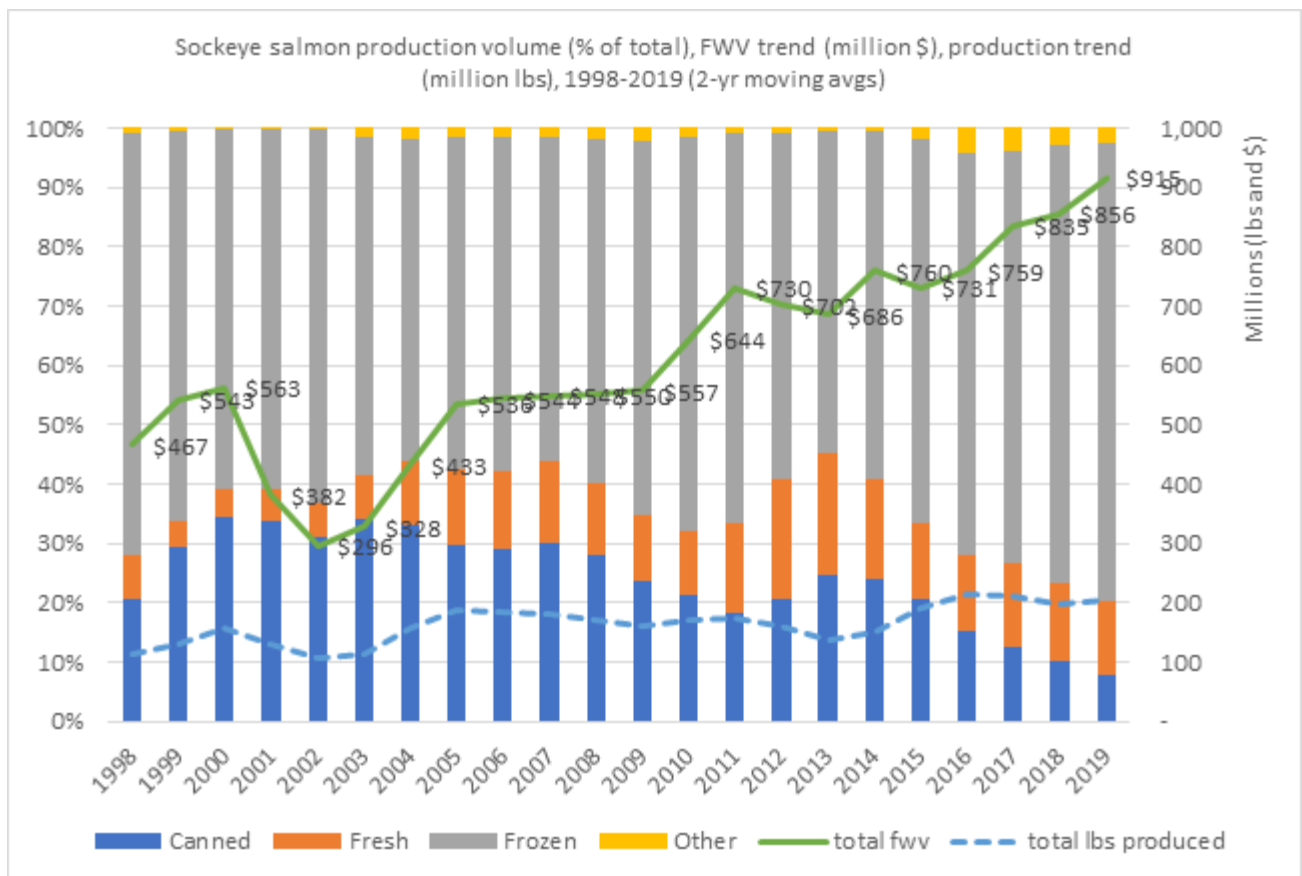
Takeaway 3: (Pink Salmon Analysis – figure below)

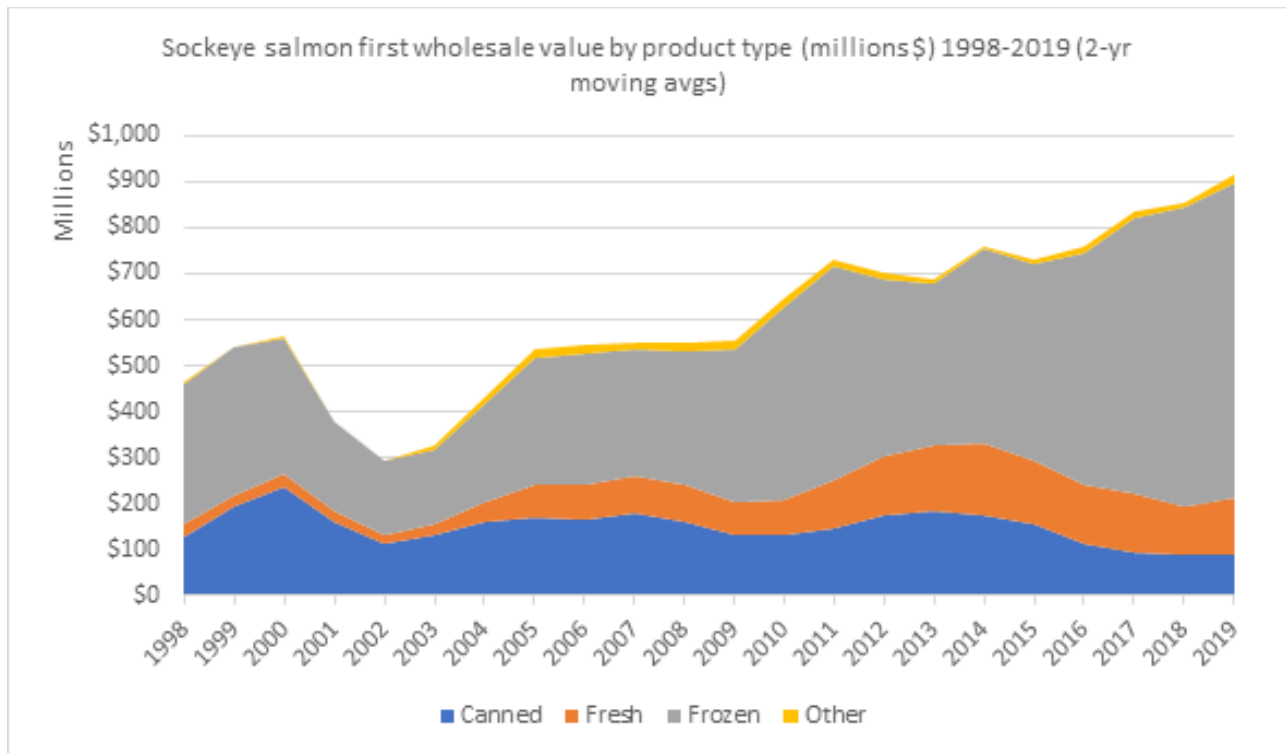
- Pink salmon saw a significant shift in product form, with cans dropping from over 70% of production to an average of <30% of production in the most recent 5-yr period.
- Canned production was largely supplanted by production in frozen product forms (H&G and fillet).
- The shift in product form accompanies significant increases in total first wholesale value, with dips in the most recent years that correspond with resource volume declines.
- Growth in first wholesale value in pinks is a direct result of the growth of frozen product forms, beginning at the time of the implementation of the tax credit.
- The difference in annual first wholesale value for pinks between 2003 (\$260.8 million) and 2019 (\$478.6 million) was \$218 million.



Takeaway 4: (Sockeye Salmon Analysis – figure below)

- The product form shift between canned and frozen in sockeye salmon was less dramatic than with pinks, though it still represents a significant reduction (approximately two-thirds) between 2003 and the most recent years.
- There is an important shift within the frozen category for sockeye, that aligns with the increase in product value. Where non-canned sockeye production was once dominated by frozen H&G production, frozen fillet production has come to represent an important – and higher margin – component of the total sockeye pack.
- In 2003, frozen fillet was only 3% of the total frozen product category for sockeye. In the last five years of available data (2013-2019) it represents an average of 19% of pack. In 2019, average frozen fillet value was \$6.68/lb vs \$3.80/lb for frozen H&G.
- As with pink salmon, sockeye first wholesale value bottomed out just prior to the implementation of the tax credit. For sockeye, the low year was 2002.
- The difference between 2002 first wholesale value (\$290.0 million) and 2019 (\$950.3 million) is \$661.3 million.





Takeaway 5: Ex-vessel value change and relation with fisheries business tax revenues

- Assuming a base of 2000-2003 average ex-vessel values for all salmon species (\$214 million) and the cumulative delta between the 2003 values and each year's increased value over base case, there is a cumulative increased value over the years 2004 - 2019 of \$5.1 billion for all salmon species.
- In a round estimate, applying the fisheries business tax rate of 3% to those values yields a gross revenue (before credits) of \$151.7 million. \$37.3 million in credits were applied during that time period.
- Subtracting the credit of \$37.3 million, this results in cumulative "added" revenue of \$114.4 million to the State of Alaska general fund (which would have been shared with municipalities as directed by the legislature).