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## Memorandum

TO: Senator Lesil McGuire  
FROM: Susan Haymes, Legislative Analyst  
DATE: December 5, 2011  
RE: State Investment in the Seward Grain Terminal and the Alaska Seafood International Manufacturing Facility  
*LRS Report 12.059*

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***You asked about the state's investment in the Seward grain terminal and the Alaska Seafood International manufacturing facility. Specifically, you asked for a history of each project including the lessons learned from the state's experience.***

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The state of Alaska invested \$8 million in the Seward grain terminal and over \$50 million in the Alaska Seafood International (ASI) manufacturing facility. Both projects were failures. The Seward grain terminal was never built, while the ASI facility never became fully operational and eventually closed after several attempts at restructuring. Both projects were attempts to diversify the state's economy and to create jobs for Alaskans. While the desire to diversify the economy is natural, especially given the state's reliance on the oil industry, attempts at instantaneous diversification have been problematic. Both of these projects failed primarily because of their large scale, although other issues such as changes in the administration and legislative priorities led to a decline in support. In the case of the Seward grain terminal, the construction of a competing grain terminal, and an unexpected and precipitous decline in barley prices also contributed to the project's failure.

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### Seward Grain Terminal

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In the 1970s and 1980s, the state of Alaska invested millions of dollars to develop a large-scale agricultural industry. The state was flush with oil revenue and Governor Jay Hammond supported the development of an agricultural industry in Alaska as a way to broaden the economic base of the state, stabilize food costs, provide alternative job opportunities, and improve rural life. In a 1975 study, the Federal-State Land Use Planning Commission for Alaska recommended the development of a large-scale demonstration project to test the feasibility of grain production in the state. As a result, in 1978, the Delta Barley project (known as Delta I) was initiated and, in 1979, the Alaska Agricultural Action Council (AAAC) was created to manage the Delta project and recommend future projects to the legislature.<sup>1</sup> Delta was designed to produce feed grain for the in-state livestock industry and eventually for export markets. Alaska's livestock industry could not be price-competitive with imported meat products unless the industry had a reliable source of feed grain available at a competitive price. Barley was selected as the main crop because it matures at cool temperatures and has a short growing cycle.<sup>2</sup>

A grain terminal at port was considered not only a necessity to the success of a grain export industry, but also to the development of a livestock industry in Alaska. To ensure the existence of a reliable source of feed grain at a competitive price, the supply had to be large enough so that local demand would not force the price of barley upward. Before farmers could increase production, however, they needed assurance that there was a market for any surplus barley. A tidewater grain terminal would provide the means to export the surplus barley to Asian markets, thereby providing the necessary safety valve by assuring a market for all the barley the farmers could grow. A secondary function of the terminal would be to reduce grain costs to Kenai Peninsula and Kodiak livestock producers by reducing the costs of transporting grain to those areas.<sup>3</sup> The AAAC

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<sup>1</sup> The AAAC was created as a separate agency and included the commissioners of the Departments of Natural Resources (DNR) and Commerce and Economic Development (DCED), two private citizens, and the special projects coordinator from the Governor's office who served as chair. The DNR retained authority over land disposal as directed by the state constitution and related statutes. We note that DCED is now called the Department of Commerce, Community and Economic Development (DCCED).

<sup>2</sup> Alaska Agricultural Action Committee, "First Report to the Legislature on the Development of a Plan for Alaska Agricultural Development," February 1982.

<sup>3</sup> David Teal, "Seward Grain Terminal," House Legislative Research Report 83.034, March 8, 1983.

estimated that a minimum of 250,000 acres needed to be available for barley production to make for a viable livestock industry and export trade.<sup>4</sup>

### *Selection of Seward as the Site for a Grain Terminal*

Once the decision was made that an export grain terminal was needed, the question became where to locate such a facility. After two years of study and debate, the AAAC selected Seward as the grain terminal site. The decision, however, was not without its detractors. A 1979 report, "Transportation and Grain Assessment for the Delta Agricultural Project" considered five potential candidates for the grain port—Anchorage, Haines, Seward, Valdez, and Whittier.<sup>5</sup> The report did not clearly recommend a site, but discussed transportation costs associated with each city, and concluded that overall, Anchorage and Seward had the most favorable attributes. Seward and Anchorage were accessible by both rail and truck transport, and could serve agricultural development from both the Nenana and Delta areas. In contrast, Valdez was served by truck only and Whittier by rail only and neither were accessible to the Nenana markets. Seward also had the benefit of a continuous ice-free, deep water port and reduced sailing time compared to the Anchorage alternative.

In a 1980 report, the Alaska Agricultural Action Council Transportation Committee focused on solely the Anchorage and Seward alternatives but again made no firm recommendation. The report noted that because of the uncertainty regarding volumes through a port facility, the investment should be kept at a minimum, and therefore the existing loading facilities in Seward were attractive. On the other hand, the additional \$2.00 per ton rail cost to move the grain to Seward was a mitigating factor, so Anchorage might be more cost-effective.

In early February 1981, legislation was introduced (HB 49 and SB 162) that appropriated \$8.2 million for a grain terminal, loading facilities and railroad cars.<sup>6</sup> Later that month, the AAAC Transportation Committee recommended Anchorage as the location for the grain terminal, if the cost of site preparation and facility construction were within \$2 million of the estimated costs to build at Seward. The decision was based on the lower cost of transporting grain from Delta and Nenana to Anchorage. At the same time, the Alaska Railroad, which owned the Port of Seward, noted its interest in development of the terminal. The Committee eliminated Valdez and Whittier primarily because of the absence of multiple transportation corridors, which eliminated all possibility of competition between transportation modes.

In March 1981, after the Alaska Railroad agreed to absorb the cost of the conveyor and ship loading system, saving \$2 million, and reducing the rate differential between Anchorage and Seward from \$2.00 a ton to as low as \$.50 a ton, the AAAC reversed its decision and recommended Seward as the preferred location for the grain terminal.<sup>7</sup>

Meanwhile, in June the Senate adopted the conference committee report on SB 162. The House adjourned one week later without voting on the conference committee report. On July 6, the Attorney General ruled that the appropriations bill had passed and that the effective date was 90 days after it was signed by the governor. On July 16, the Senate president signed the bill and sent it to the House. The Speaker of the House did not sign the conference committee report but signed a bill that was identical except for the effective date. The AAAC signed a contract for construction of the foundation of the terminal and purchased 20 rail cars with payment to be deferred until after the effective date. On August 24, 1981, Governor Hammond signed the appropriations bill.

On August 27, 1981, Representative Ramona Barnes and others filed suit to stop construction of the Seward grain terminal, contending that SB 162 had not become law with the governor's signature because the bill had not passed the House. Representative Barnes argued the question involved a separation of powers between the two branches of government; however, she had also made it clear that the AAAC had overstepped its legislative mandate by choosing to construct the grain

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<sup>4</sup> The state disposed of the rights to 60,000 acres of agricultural land in the Delta I lottery. The state auctioned an additional 25,000 acres as part of the Delta II land disposal. The goal was to have 500,000 acres in production by 1990.

<sup>5</sup> Haines was eliminated from extensive analysis because 1) access was limited to trucks; 2) a significant portion of the road to Haines from Delta was unpaved; and 3) the distance from Delta to Haines is the longest of the five sites.

<sup>6</sup> Chapter 120, SLA 1981. In the legislation, \$6.5 million was appropriated for a grain terminal, an additional \$700,000 was appropriated for a grain sub-terminal and elevator facility between Fairbanks and Delta Junction, and \$1 million for railroad hopper cars.

<sup>7</sup> Anne DeVries, "Seward Grain Terminal," House Legislative Research Report 82-031, March 4, 1982.

terminal in Seward and not Anchorage.<sup>8</sup> The Court issued a provisional ruling that the appropriation bill had not passed and a temporary restraining order to stop construction. Appealing to the Supreme Court, the state admitted that contracts were signed before the bill was signed by the governor. In October 1981, the Supreme Court refused to hear the case. In November, the Attorney General again determined that SB 162 was in effect. Also, in November, the City of Valdez entered the lawsuit as a plaintiff intervener and challenged the AAAC's choice of Seward as the site for the grain terminal. On July 13, 1982, the Superior Court ruled in the state's favor; funds were made available for construction of the terminal. Although issues were resolved in a settlement agreement signed in January 1983, the delay in the project allowed other events to intercede and helped to derail the project.

### ***Competing Project: Valdez Grain Terminal***

At the same time the AAAC was beginning its site selection process, the city of Valdez began aggressively pursuing an export grain terminal. Valdez was interested in a grain terminal for the "backhaul" that barley would give to trucking operations between Valdez and interior Alaska. According to Mark Lewis, then City Manager of Valdez, a grain export terminal would lower the cost of freight into and out of Valdez because trucks delivering freight to the interior could then carry grain on the haul back to Valdez.<sup>9</sup> In 1979, the city first approached the AAAC to formally request the export terminal be built in Valdez, and hinted that the city might pay a portion of the costs for the terminal. In a January 8, 1981 letter, Mr. Lewis proposed to waive all dock and wharf fees for a period of five years if the terminal was built in Valdez. On March 23, 1981, the Valdez Port Director claimed Valdez could store and handle grain at a price not to exceed \$4 per ton for the next 15 years. The AAAC noted that the offer should not be taken seriously because it was much lower than comparable charges in the Pacific Northwest. After not getting far with the AAAC, Valdez proceeded with plans to build a grain export terminal concurrently with the Seward terminal. In the fall of 1981, Valdez voters approved a \$10,000,000 bond issue to construct a grain storage and handling facility for the export of grain produced in Delta. The City Council awarded the bonds in February 1982, and the facility was completed in December 1982 with a capacity for about 14,000 tons of grain.<sup>10</sup> No grain, however, was ever exported using the Valdez grain terminal.

The construction of the Valdez grain terminal appears to have been a significant factor in the decision to stop construction of the Seward facility. Soon after taking office, Governor Sheffield appointed new members to the AAAC, which met on January 13, 1983, to recommend that construction on the terminal cease because an export market was not available and alternatives were available which "preclude the economic wisdom of completion now."<sup>11</sup> Commission member Peter McDowell, then director of Office of Management and Budget, stated that a major issue for the administration was whether the state should directly compete with the Valdez grain terminal, a private sector and local government project. The two agricultural members of the AAAC noted that the cost of shipping grain to Valdez could be prohibitively expensive for farmers, and further that the decision to terminate the Seward project appeared to be more political than economic.<sup>12</sup> Clearly, there was an issue whether the Valdez terminal made economic sense in the development of a grain industry; however, by this time the new administration and many legislators no longer supported the state's investment in the agricultural industry.

### ***Interagency Conflicts and Changes in Administration***

Prior to the AAAC, the Department of Natural Resources (DNR) had managed all agricultural programs. Although DNR retained its authority over state lands, the AAAC was created as a special projects entity in the governor's office to oversee the

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<sup>8</sup> Representative Ramon Barnes, "Agriculture: A Choice Must Be," Position Paper, March 19, 1982.

<sup>9</sup> Ann Cony, "Valdez Joins Suit Over Grain Terminal," *Anchorage Daily News*, September 23, 1981.

<sup>10</sup> The completed facility had one-half of the capacity originally envisioned. In addition, the building site was chosen poorly, and the terminal needed approximately \$500,000 in dredging to allow barges close enough to load grain. Memorandum from House Community and Regional Affairs staff to Representative Barbara Lacher, "Valdez Grain Terminal Summary," May 12, 1983.

<sup>11</sup> The *Anchorage Daily News* reported that the AAAC's decision was a done deal before the meeting because on January 11, 1983, two days before the January 13 meeting, the state signed a settlement agreement to resolve the remaining issues in the Barnes lawsuit, and as part of the settlement agreed to close the Seward grain terminal. As a result a second public meeting was held a week later, which the governor attended. The decision, however, remained the same. Steve Seplocha, "Senator: Secret Pact Axed Terminal," *Anchorage Daily News*, May 20, 1983.

<sup>12</sup> The city of Valdez and its partner in the terminal, Alaska Grain, had lobbied Representative Barnes and other lawmakers to support the Valdez terminal over the Seward site. Memorandum from House Community and Regional Affairs staff to Representative Barbara Lacher, "Valdez Grain Terminal Summary," May 12, 1983.

Delta barley project and to pursue new agriculture projects. Agricultural supporters argued that the economic future of the industry depended on the continuous and rapid expansion of agricultural lands and the development of infrastructure projects such as the grain export terminal. Thus, the development of an agricultural industry depended to a large extent on cooperation between AAAC and DNR. Tensions between the two agencies became apparent as the AAAC began implementing Delta I. The AAAC became frustrated with the perceived lack of cooperation among DNR staff to disperse land for agricultural use in a timely manner. In an analysis of Alaska agricultural policy implementation, the authors conclude that much of the tension between DNR and the AAAC resulted from conflicting objectives. The DNR's responsibility was comprehensive management including planning and disposal of all state lands, while AAAC's responsibility was to get land into agricultural production quickly.<sup>13</sup> The AAAC had difficulty accepting the complexity of existing statutes and regulations that underscored many actions of DNR and, at the same time, DNR's regulations did impede AAAC's actions.

Furthermore, most resource decisions by DNR required coordination with other state agencies such as the Alaska Department of Fish and Game (ADF&G). The shift of decision-making to AAAC also undermined this inter-departmental cooperation. All of these problems were highlighted during the Delta II land disposal. Getting more land into production was seen as critical to the export grain market as well as the livestock industry. The Delta II land sale was postponed due to ADF&G concerns regarding the free-ranging bison herd and crop damage, and conflicts over timber and agriculture. Staff of ADF&G publicly opposed the Delta west land sale and urged their commissioner to reverse his endorsement of the project. The Delta II east sale finally occurred; however, the governor postponed indefinitely the Delta II west sale due in part to inter-agency conflicts and the public perception that the Delta east sale was not handled well.

To proceed with any degree of success, a government-induced agricultural industry, or any large government project, requires strong and consistent support from the legislature, the governor, and the affected bureaucracy. In this case, the attempts by the AAAC to implement Delta I and II led to resistance from DNR and other established departments. Initially, agricultural projects had strong public and legislative support. Alaska, however, had no sizeable political base that supported agriculture, and as projects were delayed and setbacks occurred, support diminished quickly.

In addition, as an entity in the governor's office, AAAC's power to implement stemmed from the strong individual connection between its chairman and the governor. When a new governor took office in 1982, he appointed new members to the AAAC who immediately took action to cancel the Seward grain terminal project. No additional appropriations were ever made to fund the construction and the terminal elevator was never realized.

### *Grain Prices*

In 1981 and 1982, the barley harvest was less than expected due to a multitude of problems ranging from early snowstorms, crop depredation from bison, lack of grain drying and storage facilities, and grasshopper infestations. Farmers were able to meet in-state demand but there was little barley for an export market, which led to declining support for the construction of the Seward grain terminal and the development of an export market. The production of barley in Alaska reached its peak in 1984; unfortunately at the same time the commodity prices for small grains declined dramatically. The drop in international prices made imported grain cheaper than barley produced in Alaska. In short, too little barley was being produced to export, and prices were too low for that to be an economical solution. As debt mounted, the number of farmers in Delta began decreasing.<sup>14</sup> At the same time, the state was facing increasing fiscal constraints due to declining oil prices in the 1980s.

Even if the Seward grain terminal had been constructed, the potential for success of an in-state livestock and export barley industry is debatable. The decline in commodity prices in 1984, coupled with the difficulty in creating a large-scale agricultural industry essentially out of nothing, would have been difficult to overcome.

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<sup>13</sup> C.R. Engelbrecht and W.C. Thomas, "Agricultural Policy Implementation in Alaska," *Agricultural Administration and Extension*, 26 (1987) pp. 75-90.

<sup>14</sup> Division of Legislative Audit, "A Special Report on the Department of Natural Resources Delta Agricultural Project," Audit Number 10-4248-86-S, August 15, 1986.

Alaska's commercial fisheries are currently worth \$1.5 billion to fishermen and have a wholesale value of \$3.6 billion. Alaska's fisheries support a large processing industry with over 500 licensed processors, more than half of which are catcher-processor vessels that both harvest and process seafood. The remaining processors are located shoreside, and of those about 30 handle most of the harvest. The majority of processing in Alaska consists of *primary processing*, which usually involves heading, gutting and freezing. In contrast, most *secondary processing*, which adds value to the product by creating skinless/boneless fillets, fish patties, and other products, occurs outside of the state. The Alaska Seafood International (ASI) manufacturing facility was to represent Alaska's entry into the secondary processing industry, thus creating jobs and revenue for Alaskans.

Howard Benedict, president of Alaska Seafood Center, began promoting a large-scale Anchorage seafood processing facility in the 1980s.<sup>15</sup> Mr. Benedict organized a small group of private investors and approached the Alaska Industrial Development and Export Authority (AIDEA) about the state's interest in investing in such a project. In 1992, Alaska lawmakers introduced legislation (HB 417), which provided AIDEA the authority to issue bonds for up to \$50 million for an Anchorage seafood processing facility. The bill's sponsors decided to delay action on the bill to allow time for Alaska Seafood Center to find additional investors for the project and to develop a business plan. The following year legislation was again introduced and passed that provided AIDEA with bonding authority not to exceed \$50 million to construct and own a seafood manufacturing facility to be located in Anchorage (ch 27 SLA 93).<sup>16</sup> Mr. Benedict testified that the Center had lined up additional financing from a New York investment bank, and a market for all of the products appeared to be available. He further testified the facility would provide approximately 200 jobs during the construction phase and 450 year-round jobs once the facility was operational. The Center would not compete with existing primary processors, but would make major, year-round purchases from Alaska's primary processors for use in secondary processing. The "ready-to-heat" products would then be shipped to domestic and international markets. Mr. Benedict noted the company was not seeking a subsidy, but would repay AIDEA as it would commercial lenders. He further noted the project would bring \$100 to \$115 million in outside money to the state.<sup>17</sup> The Department of Commerce and Economic Development (DCED) also supported the project because of its value in creating jobs, diversifying seafood exports, and providing a 45 million pound public cold storage facility.<sup>18</sup>

When asked why the project was not located in Dillingham or Dutch Harbor, Mr. Benedict explained that already the facility would experience a \$2.5 million disadvantage per year per 100 million pounds of production for being located in Alaska. To overcome this disadvantage, the facility would be equipped with the latest in processing technology to increase efficiencies, and the City of Anchorage had agreed to provide electricity at a rate that was 38 percent below Seattle's cost. Construction of the facility in another part of the state would not have the transportation advantage provided by the Anchorage Airport, and the cost of power outside of Anchorage would put the cost of electricity totally out of the economic picture.

### *Construction and Early Years*

Several years passed before Mr. Benedict secured a large investor for the project. In 1996, the Alaska Seafood Center joined with Central Investment Holdings (CIH), a Taiwan investment company, to form Alaska Seafood International. In November 1998, AIDEA and ASI signed an agreement whereby AIDEA would provide interim financing for construction of the facility.<sup>19</sup> The 184,000 square foot plant—the largest seafood processing facility in the country—was built to turn 80-100 million pounds of fish a year into "ready to heat" seafood meals. On September 23, 1999, AIDEA purchased the completed facility with its own funds without use of the bonding authority provided by the legislature in 1993. After six months of delay, ASI claimed it was ready to start operations in December 1999, with plans to start shipping products to customers by the end of January.

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<sup>15</sup> Mr. Benedict, previously a Connecticut real estate developer, moved to Alaska in 1981. He founded the Alaska Seafood Center, the precursor to ASI.

<sup>16</sup> In 1993, Senator Johnny Ellis introduced SB 16 to provide AIDEA with the authority to issue bonds for an Anchorage seafood facility. Later in the session, the language from SB 16 was included in SB 171 and passed the legislature.

<sup>17</sup> Senate Finance Committee meeting minutes on SB 16, April 5, 1993. The minutes can be accessed at [www.legis.state.ak.us/basis/get\\_single\\_minute.asp?ch=S&beg\\_line=0416&end\\_line=0665&session=18&comm=FIN&date=19930405&time=0810](http://www.legis.state.ak.us/basis/get_single_minute.asp?ch=S&beg_line=0416&end_line=0665&session=18&comm=FIN&date=19930405&time=0810).

<sup>18</sup> Department of Commerce and Economic Development (DCED) Position Paper signed by then Commissioner Paul Fuhs on March 16, 1993.

<sup>19</sup> The total cost for the project was \$125 million. The AIDEA provided \$50 million for construction and long-term financing of the processing building, land and power plant, private sector investment financed equipment, the cold storage facility, working capital and provided other required funds.



The company had hired only ten workers, but planned to add more as production increased. At the time, there was some speculation as to how many customers ASI actually had and how much raw fish they had for processing. ASI reassured the state and other investors that the company had found a market and had purchased millions of pounds of frozen fish which was waiting in the adjacent cold storage facility.<sup>20</sup>

Nonetheless, many in the seafood industry questioned whether ASI could ship seafood to Anchorage, process it, and transport the product to national and international markets, while selling it cheaply enough to compete with similar seafood products produced out of the state. According to Stephanie Madsen, then vice president of Pacific Seafood Processors Association, other processors had looked at value-added product and found that it was not economically feasible to produce in Alaska. Other seafood processors called the venture too ambitious and questioned its success because of the formidable distance from the fishing grounds to Anchorage and outside suppliers.

The plant never became operational or produced any product for market in early 2000 due to the loss of operating cash. According to AIDEA and ASI, in February 2000, due to a change in political parties in Taiwan, CIH was directed to withdraw money from foreign investments. Central Investment Holdings was the largest private investor in the plant and provided the operating cash for the business. With the loss of operating cash, the plant was idle or operated at a very low capacity, and AIS began seeking a new equity investor.<sup>21</sup> We note that AIS never explained why the company did not begin processing the millions of pounds of already purchased seafood for its customers in December and January.

### *Three Restructuring Plans*

The AIDEA began working with ASI on the first of three restructuring plans that would be attempted to keep the company afloat. During the summer of 2000, AIDEA had been reluctant to provide more money unless the operation could meet certain conditions, which included finding a new investor with seafood experience. At the same time, a number of legislators wrote to AIDEA in support of providing additional funding for ASI. Representative Gail Phillips, among others, argued too much private and public money had been invested to just walk away. Wilson Hughes, then AIDEA board chairman, noted that weighing whether giving the seafood company additional funds made good business sense, as opposed to political sense, was essential.<sup>22</sup>

In October 2000, the AIDEA board narrowly voted to lend \$6.5 million in cash and rent concessions to ASI. The vote was 3-2, with representatives from DCED and the Department of Revenue voting against the proposal. The plan included the AIDEA contribution of \$6.5 million in exchange for 22.5 percent ownership of the venture; the private investment group headed by Howard Benedict would slip from 38 percent to 5 percent ownership and Mr. Benedict would lose his board seat; AIDEA would seek a new investor with food-processing expertise to contribute \$5 million for a five percent ownership; and CIH would contribute \$10.5 million in new money and own the remainder of Alaska Seafood International. The plant was to restart production of fish portions and meals in January of 2001.<sup>23</sup>

The vote allowed the restructuring efforts to continue and, in January 2001, ASI announced the company's finances had been restructured, resulting in \$14 million in new cash and a fresh commitment from the Taiwanese. The AIDEA became a 25.4 percent owner in ASI in exchange for \$2.5 million and forgiveness or deferral of \$8 million in rent. Jeff Bush of DCED, who had previously voted against the deal that made AIDEA an owner, became chairman of the new, nine-member board. Mr. Bush acknowledged the company had significant issues but thought the venture could be salvaged. The company needed not only a new line of credit to buy raw processing materials, including fish, seasonings, and packing materials, but also needed to reformulate a sales and marketing plan to generate orders.<sup>24</sup> Under the restructuring plan, the Benedict investors were left with less than one percent of ownership in ASI.

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<sup>20</sup> Tony Hopfinger, "Seafood Center Set to Open," *Anchorage Daily News*, December 11, 1999.

<sup>21</sup> "Alaska Seafood International – Seafood Manufacturing Facility Final Fact Sheet," AIDEA, July 18, 2005; and Wesley Loy, "Seafood Factory Loses Investor," *Anchorage Daily News*, June 20, 2000. The AIDEA Fact Sheet can be accessed at [www.aidea.org/PDF%20files/ASIfactSheet.pdf](http://www.aidea.org/PDF%20files/ASIfactSheet.pdf).

<sup>22</sup> Associated Press, "Agency Urged to Provide More Aid to Struggling Seafood Plant," *Juneau Empire*, August 15, 2000.

<sup>23</sup> Wesley Loy, "Seafood Factory Gets \$6.5 Million Reprieve," *Anchorage Daily News*, October 25, 2000.

<sup>24</sup> Wesley Loy, "ASI Plant Gets New Board," *Anchorage Daily News*, March 3, 2001.

A series of lawsuits followed filed by Howard Benedict, the company's founder; a marketing firm; and a Kodiak fish processor. The AIDEA continued to recruit a new investor and to restart production. According to news reports at the time, relations between the Benedict investors and CIH were strained, and new management at CIH did not like the investment and couldn't understand why their predecessors made it in the first place.<sup>25</sup>

In May of 2001, ASI announced a second restructuring of the company's finances. At this time, a new investor, Sunrise Capital, a New York-based investment firm that specialized in turning around troubled companies, assumed a 51 percent interest and management control of ASI. At the same time, ownership shares of the other investors decreased, so AIDEA had to assume a 29 percent equity share. A new CEO, Russell Schreck, was appointed and Sunrise pledged to line up operating cash to buy raw fish. In all, Sunrise pledged \$32.5 million to revive the plant. Joseph Julian, a principal with Sunrise in New York, commented that ASI's original concept was good, just poorly executed.<sup>26</sup> Mr. Schreck replaced senior managers with a management team experienced in food manufacturing and fisheries. He also established a sales staff in markets in the lower 48, the first time sales representatives had been hired. Several new buyers signed contracts and the company's prospects seemed to be improving.<sup>27</sup> The company filled a number of large orders for Sam's Clubs and Albertson's grocery stores under The Great Alaska Seafood Co. brand. By August 2002, however, all of the orders had been filled and only 40 workers remained.<sup>28</sup> While Sunrise had shown ASI could be a viable concept with sales to large retailers, the lack of steady customers and supply problems doomed the company again.

The third restructuring occurred in the fall of 2002. According to AIDEA, staff alerted the board that ASI was facing liquidity problems and advised that it could be time to begin an orderly wind-up of the company. Under direction from the Governor's office, however, AIDEA agreed to a third restructuring of ASI in October 2002. This restructuring provided additional capital to carry the company through June 2003. As part of the deal, AIDEA invested \$2.5 million by acquiring adjacent property valued at \$2.6 million, and agreed to purchase additional shares in the company up to \$500,000, which was to be paid in monthly installments of \$100,000.<sup>29</sup> At this point, AIDEA had invested \$50 million in ASI and owned title to the company's building and land, had another 20 percent stake in the company through unpaid rent, as well as the land parcel valued at \$2.6 million.<sup>30</sup> In the spring of 2003, AIDEA's new board and management informed ASI that after the last installment of \$100,000 was paid in June 2003, ASI could expect no further contributions from AIDEA.

The new management at ASI recast the company as a smaller, less ambitious operation, and for the first time the company had a steady customer in BJ's Wholesale Club, an east coast retailer similar to Costco. The one customer, however, was not enough to keep the company going and ASI conceded they had neither the money nor the sales to sustain operations for more than a year. The company employed about 50 people and the small operation, set up inefficiently on either end of the building, took up only about 20 percent of the 184,000 square foot facility.<sup>31</sup>

### ***The End and Lessons Learned***

As ASI's debt mounted, in May 2003, the company again asked the governor for help. Specifically, ASI asked for \$100,000 a month to pay utility, insurance and other costs for upkeep of the building and asked the state to defer the \$360,000 monthly rent payments for nine-months. In addition, ASI asked for some of the \$50 million allocated for the salmon industry marketing and revitalization plan.<sup>32</sup> In June 2003, ASI secured additional capital from Sunrise and Grandway Investments

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<sup>25</sup> Wesley Loy, "Founder Sues Fish Factory-ASI Suit is One of Several Against Stalled Start-Up," *Anchorage Daily News*, March 14, 2001.

<sup>26</sup> Wesley Loy, "Seafood Factory Revives-New CEO Expects Production at Alaska Seafood International to Begin by July," *Anchorage Daily News*, May 18, 2001.

<sup>27</sup> Associated Press, "Business Picks Up for Seafood Plant," *Juneau Empire*, January 2, 2002.

<sup>28</sup> James McPherson, "Chicken Expert Takes Aim at Fish Plant," *Alaska Journal of Commerce*, August 12, 2002.

<sup>29</sup> "Alaska Seafood International – Seafood Manufacturing Facility Final Fact Sheet," AIDEA, July 18, 2005.

<sup>30</sup> James McPherson, "State Sinks Another \$2.5 Million Into ASI Plant," *Alaska Journal of Commerce*, October 21, 2002.

<sup>31</sup> Wesley Loy, "Big Seafood Factory Thinks Small," *Anchorage Daily News*, March 22, 2003.

<sup>32</sup> Associated Press, "Troubled Seafood Plant Asks Governor for Help," *Alaska Journal of Commerce*, May 27, 2003.

International Corporation. The AIDEA declined the presumptive right to purchase additional membership under the agreement. The infusion of cash did not help, and in September 2003, ASI voted to dissolve the company.

The demise of ASI resulted in significant financial losses to the state and other creditors. Doug Bell, president of ASI, said that secured creditors were owed about \$20 million and unsecured creditors were owed at least \$1 million. Many were never paid as ASI's equipment, meager cash reserves and seafood supplies were not nearly enough to pay secured creditors. Officials at the AIDEA estimated the state had invested about \$53 million in the venture.<sup>33</sup>

The AIDEA regained possession of the building and was responsible for oversight of the facility. The ASI conducted a public sale of the processing equipment and other personal property for approximately \$3 million, which was used in part to satisfy past due property taxes owed by ASI to the Municipality of Anchorage. The AIDEA wrote off at least half of the investment as a loss and, in 2005, sold the facility to Anchorage Community Development for \$24.5 million.

The overriding criticism from the beginning of the ASI venture was simply that it was too large. Constructed as the largest fish manufacturing facility in the country, the company had to immediately produce product for numerous customers on a large scale to sustain the operation. Instead, ASI from the outset had management problems and difficulty finding customers and maintaining a steady supply of fish for product. As ASI president Doug Bell said, the venture "just started on too grand a scheme instead of starting small and building." The original model of starting large-scale with the intent of immediately taking a big bite of the processed seafood business proved to be a mistake.<sup>34</sup>

Others noted that politics exacerbated the problems. Mike Barry, AIDEA board chairman in 2005, reflected that the AIDEA board would better serve the public by being more independent of politics. He suggested this could be accomplished by adding two more independent directors on rotating terms. He noted that this was not a reflection on the present governor's relationship with the board, but that "There are always going to be lobbyists and special interests that will try to take advantage of opportunities, and the public, to be protected from that, has to have a more independent board than we have today." He also emphasized that numerous people in the fishing industry had warned the project was ill-advised but those voices had been ignored.<sup>35</sup> Under the second restructuring, Sunrise had some success operating a smaller scale facility, but by that time mounting debt made any venture unsustainable.

We hope this is helpful. If you have questions or need additional information, please let us know.

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<sup>33</sup> Wesley Loy, "Troubled Seafood Plant Closes Doors," *Anchorage Daily News*, October 1, 2003.

<sup>34</sup> Wesley Loy, "Troubled Seafood Plant Closes Doors," *Anchorage Daily News*, October 1, 2003.

<sup>35</sup> Margaret Bauman, "Seafood Plant Sale Finalized Under Revised Terms," *Alaska Journal of Commerce*, June 12, 2005.