

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT,
INTERNATIONAL TRADE AND TOURISM**

March 31, 2003
5:35 p.m.

MEMBERS PRESENT

Representative Cheryll Heinze, Chair
Representative Pete Kott
Representative Vic Kohring
Representative Sharon Cissna
Representative Harry Crawford

MEMBERS ABSENT

Representative Lesil McGuire, Vice Chair
Representative Nancy Dahlstrom

COMMITTEE CALENDAR

OVERVIEW: AGRIMUM, KENAI NITROGEN PRODUCTION AND INTERNATIONAL MARKETS

OVERVIEW: ALASKA SEAFOOD MARKETING INSTITUTE

[For the regular meeting minutes, see the 5:14 p.m. minutes for this date.]

TAPES

03-6, SIDE(S) A & B

CHAIR CHERYLL HEINZE reconvened the meeting of the House Special Committee on Economic Development, International Trade and Tourism at 5:35 p.m. Present were Representatives Heinze, Kott, Kohring, Cissna, and Crawford.

SUMMARY OF INFORMATION

OVERVIEW: AGRIMUM, KENAI NITROGEN PRODUCTION AND INTERNATIONAL MARKETS

MIKE NUGENT, General Manager, Agrium Kenai Nitrogen Operations, introduced his colleagues, Lisa Parker, community relations coordinator for Agrium U.S., and John Miller, who is in charge of international marketing. Mr. Nugent provided handouts and

presented an overview of Agrium. He began by stating that he would discuss their operations at Kenai and describe what Agrium does. He went on to say that he would then discuss the Cook Inlet operations, following which John Miller would discuss Agrium's international program.

MR. NUGENT told members that Agrium produces nitrogen fertilizer products. Agrium is the largest producer of nitrogen products in North America, with a total of 6.9 million tons produced a year. The facility at Kenai is responsible for 6 percent of North America's total output of nitrogen. Two products are produced from nitrogen: ammonia and urea.

MR. NUGENT went on to describe some aspects of the economic impact of Agrium, which produces high-paying jobs and is a value-added manufacturer. Agrium has 292 year-round employees, which puts it in third place for largest private-sector employers. Pay at Agrium is 2.5 times higher than the Kenai Peninsula Borough average wage. Agrium has paid \$2.4 million in property taxes to the Kenai Peninsula Borough. It is active in charitable giving, focusing its funds on youth-based charities. Agrium contributes \$1.4 million to state funding for education.

MR. NUGENT went on to discuss Agrium's activity in Cook Inlet. Major oil and gas fields exist in Cook Inlet, but the potential is underdeveloped. Agrium is unable to operate at capacity in Cook Inlet due to inadequate supply. The Cook Inlet facility he described as a world-class facility that competes in the world market. He said Agrium is committed to further growth and development of the Cook Inlet facility.

JOHN MILLER, Manager, Industrial and International Sales, Agrium Inc., Calgary, Alberta, spoke next. He showed an international map outlining Agrium's international markets for ammonia. Korea accounts for 92 percent of its market, Thailand 16 percent, the Philippines 5 percent, and Taiwan 3 percent. Agrium does not sell its product to the Lower 48 because of the Jones Act and the lack of access to a Jones Act-approved barge for the transport of anhydrous ammonia.

MR. MILLER further described the major global competition faced by Agrium. He again showed a map portraying the Middle East as the primary competitor, with Malaysia, Indonesia, Russia, and Venezuela representing other areas of competition for Agrium's products. Agrium enjoys a distinct freight cost advantage over its competitors. With the cost of gas increasing, this

advantage is at risk. There is a distinct need for further gas development to allow Agrium to continue to grow and prosper.

OVERVIEW: ALASKA SEAFOOD MARKETING INSTITUTE

RAY RIUTTA, Executive Director, Alaska Seafood Marketing Institute (ASMI), introduced his associate, Laura Fleming. He provided handouts and presented an overview of ASMI, the state's seafood marketing arm, which was developed by a combined effort of industry and government. He reported that ASMI functions by developing strong relationships with major foodservice chains, retail chains, restaurants, and chefs. Alaskan salmon commands an excellent price but has faced sharp declines in price due to farmed salmon that has flooded the market. He said ASMI revenues have declined, paralleling the decline in salmon price and revenues. Over the past year, ASMI has seen a drop in revenue of 42 percent.

MR. RIUTTA told members that ASMI also has a focus on exports, considering itself an expert at exports, with six full-time overseas staff in addition to four local full-time staff. The federal government contributes 78 percent of the funding to ASMI for its overseas marketing efforts. However, the United States Department of Agriculture (USDA) channels this funding to growth markets. Thus mature markets such as Japan have become a problem for ASMI in terms of continued marketing efforts.

MR. RIUTTA noted that competition in salmon marketing comes from several areas. Norway, another major marketer of salmon, produces similar quantities of salmon. But whereas Norway spends \$40 million to market this salmon, ASMI has \$4 million to spend on marketing all of Alaska's seafood products. Another challenge for Alaskan salmon results from the inconsistent market, with seasonal changes in availability. Farmed salmon, with its consistent quality and availability, has been able to bite into the wild salmon market.

MR. RIUTTA said ASMI plans to focus marketing efforts on the uniqueness of the Alaskan product. It is also focusing on other fish products. In the United Kingdom (UK) and Europe, for instance, Alaskan pollock and cod have found large markets due to the decline of local stocks of these fish. Currently, ASMI's largest overseas market for fish is Japan at 48 percent; Europe is next at 19 percent. South Korea is a growing market, but serves primarily as a warehouse from which it ships the fish to markets throughout Asia.

MR. RIUTTA said another focus of ASMI in its marketing efforts has been directed toward chefs. Contests using Alaskan seafood have been successful. Partnerships with various groups such as McCormick and Schmick's restaurant chain, Alaska Airlines, and the soy sauce industry also have met with success. He reported that ASMI is very active in trade shows, public relations, technical training, and special events. Very little of its effort is focused on advertising.

REPRESENTATIVE KOHRING asked why ASMI does not fund itself by directly taxing the salmon industry and the seafood processors.

MR. RIUTTA responded that most federal grants require state matching funds.

REPRESENTATIVE CISSNA asked if other states have seafood markets that they promote.

MR. RIUTTA responded that other states are using ASMI as their model for marketing including, recently, even the farmed salmon industry.

REPRESENTATIVE CISSNA asked if the U.S. is not doing a great job in marketing seafood.

MR. RIUTTA responded that the sale of seafood is not down. The problem is the flooding of the market with farmed fish so that the prices are down.

CHAIR HEINZE asked how the committee can help to support ASMI.

MR. RIUTTA responded that anytime someone travels, he or she should market the seafood from Alaska; ASMI will provide material to assist with this. The markets in need of help are Japan and the growing market in China. Australia, he said, is a pretty weak market.

CHAIR HEINZE asked if the war is having an impact.

MR. RIUTTA indicated the war will probably affect all of ASMI's exports.

CHAIR HEINZE asked if people can expect to see Alaskan salmon served on Alaska Airlines.

MR. RIUTTA responded that ASMI recently had a very positive meeting with Alaska Airlines. There is a hope that the airline

will help to promote Alaskan salmon, and may serve it in first class.

REPRESENTATIVE McGUIRE asked what legislators can do if Alaska's own airline won't serve Alaskan fish.

MR. RIUTTA responded that the problem is the price point. Farmed salmon with its low price makes it very difficult to compete.

REPRESENTATIVE CISSNA asked if she understands correctly that while Alaskan salmon sales have declined, other salmon sales have increased.

MR. RIUTTA affirmed that this is correct.

ANNOUNCEMENTS

There were no announcements.

COMMITTEE ACTION

The committee took no action.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Economic Development, International Trade and Tourism meeting was adjourned at 7:00 p.m.

NOTE: The meeting was recorded and handwritten log notes were taken. A copy of the tape(s) and log notes may be obtained by contacting the House Records Office at State Capitol, Room 3, Juneau, Alaska 99801 (mailing address), (907) 465-2214, and after adjournment of the second session of the Twenty-Third Alaska State Legislature this information may be obtained by contacting the Legislative Reference Library at (907) 465-3808.