

**ALASKA STATE LEGISLATURE**  
**HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

February 5, 2009

8:02 a.m.

**MEMBERS PRESENT**

Representative Bob Herron, Co-Chair  
Representative Cathy Engstrom Munoz, Co-Chair  
Representative Charisse Millett  
Representative Sharon Cissna  
Representative Berta Gardner

**MEMBERS ABSENT**

Representative John Harris  
Representative Wes Keller

**COMMITTEE CALENDAR**

OVERVIEW(S): OFFICE OF ECONOMIC DEVELOPMENT, DEPARTMENT OF  
COMMERCE, COMMUNITY, & ECONOMIC DEVELOPMENT; ALASKA SEAFOOD  
MARKETING INSTITUTE

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

JOE AUSTERMAN, Manager  
Anchorage Office  
Office of Economic Development (OED)  
Department of Commerce, Community, & Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** Provided an overview of the Office of  
Economic Development.

CARYL MCCONKIE, Tourism Development Manager  
Juneau Office  
Office of Economic Development  
Department of Commerce, Community, & Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** During overview of OED, answered questions.

RAY RIUTTA, Executive Director  
Alaska Seafood Marketing Institute (ASMI)  
Department of Commerce, Community, & Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** Provided an overview of ASMI.

#### **ACTION NARRATIVE**

[8:02:04 AM](#)

**CO-CHAIR BOB HERRON** called the House Community and Regional Affairs Standing Committee meeting to order at 8:02 a.m. Representatives Herron, Munoz, and Gardner were present at the call to order. Representatives Millet and Cissna arrived as the meeting was in progress.

Overview(s): Office of Economic Development, Department of Commerce, Community & Economic Development

[8:02:33 AM](#)

CO-CHAIR HERRON announced that the first order of business would be an overview of the Office of Economic Development, Department of Commerce, Community & Economic Development (DCCED).

[8:03:00 AM](#)

JOE AUSTERMAN, Manager, Anchorage Office, Office of Economic Development (OED), Department of Commerce, Community, & Economic Development, explained that he hopes this presentation will provide the committee with a better understanding of the work OED is doing on behalf of Alaskans. Mr. Austerman related that the formal mission of OED is to promote and advocate for the industries of film, minerals, tourism, commercial fisheries, forestry, and small business development. However, internally that [mission] has been broadened to be for the benefit of all Alaskans. The OED has a unique position in state government as it serves as a conduit between industry and government offices.

[8:05:34 AM](#)

CO-CHAIR HERRON inquired as to the situation prior to 2004 when OED was established.

MR. AUSTERMAN related that prior to [2004] there was an entire department of economic development, and reminded the committee

that several years ago the Department of Economic Development and the Department of Commerce were merged. Essentially, OED is what's left of the former Department of Economic Development, he said. He then opined that OED, although it's one of the smallest divisions, has one of the largest missions.

[8:06:31 AM](#)

MR. AUSTERMAN, returning to his overview, highlighted that OED has a focused tool set as economic development covers an extremely broad spectrum. The OED has industry specialists that are focused on developing specific aspects of Alaska's economy. The OED is very actively involved in the analysis of Alaska's economy and its development. Mr. Austerman then highlighted that OED serves as a resource as illustrated in the organizational chart entitled "OED: WHO WE ARE." At this point, OED has a staff of 17 with which it produces information in the form of reports such as the "Alaska Economic Performance Report and Net Rate of Return." The aforementioned report offers a snapshot of the health and well being of the state's industries, including oil and gas. Although OED doesn't have an emphasis of developing oil and gas, the Department of Natural Resources (DNR) has meet with OED regarding its model. He noted that the aforementioned report also includes the Net Rate of Return which provides analysis of the impact of industry, specifically on a general fund perspective. He reviewed other reports that OED publishes, including the Film Office annual report that will be available in a couple of weeks. Mr. Austerman related that OED has become a focal point for information gathering, which is a role that Commerce hasn't historically played very often. However, it's a great fit for OED. He noted that last year an economic analysis component was added. Within OED, it has become apparent that Alaska is lacking in timely information, which he attributed to the lack of administrative mechanisms in Alaska. Alaska doesn't have an income tax or a sales tax, which are mechanisms that other states use to gather reliable economic data quickly. Therefore, OED is working with other organizations to gather data since there isn't a central warehouse of information, which is an initiative that OED is working on currently. The OED is working to broaden its economic expertise and analysis capabilities largely for the benefit of the legislature.

[8:12:39 AM](#)

MR. AUSTERMAN then turned to tourism and relayed that the economic indicators predict that there's going to be a severe

drop in tourism this summer. He informed the committee that OED put together an analysis regarding how in-state marketing money might impact Alaska. The aforementioned was prepared in about a week and was provided to legislators who are interested [in the use of in-state marketing funds].

[8:13:24 AM](#)

REPRESENTATIVE GARDNER recalled that last year the legislature changed the funding formula for the Alaska Travel Industry Association (ATIA) and provided for a state match. She inquired as to how the aforementioned has changed the fundraising for ATIA and how it looks for the coming year.

MR. AUSTERMAN said that OED, which has a large tourism component, administers that contract. Last year the cruise industry, which was a large component of ATIA's matching component, pulled out as a result of the cruise head tax. Therefore, ATIA has lobbied and petitioned for a change in the state's matching funds such that ATIA would produce 30 percent of its overall budget and the state would match 70 percent. He clarified that it's an independent contract that OED merely administers and thus ATIA lobbies on its own behalf.

[8:15:33 AM](#)

CARYL MCCONKIE, Tourism Development Manager, Juneau Office, Office of Economic Development, Department of Commerce, Community, & Economic Development, specified that she, along with Mr. Austerman, manages the tourism marketing contract with ATIA. In response to Representative Gardner, Ms. McConkie informed the committee that last year ATIA would've raised close to \$5 million. However, early on in the legislative session the anticipation was that there would be difficulty in meeting the match. The official end of the year match was \$4.2 million to match the state's appropriation. She explained that last year there was a decrement in the supplemental budget. This year ATIA is on target to raise \$2.7 million, which will allow access to the state's appropriation of \$9 million. The legislation changing the match that passed last year had a three-year life span. Therefore, if the appropriation stays the same, she said she anticipated that ATIA will raise \$2.7 million in 2010.

[8:18:00 AM](#)

REPRESENTATIVE CISSNA expressed concern with including the independent traveler in tourism efforts. She then inquired as

to whether Alaska is comparing itself to other states in terms of the [ATIA] arrangement and making assessments regarding how the state can help the industry while providing good oversight.

MS. MCCONKIE noted that she worked [in this field] in another state and is well aware that every state studies the funding source of other states. About 10 years ago Alaska was quite behind in [tourism] spending as compared to other states, and thus the intent with the change was to increase spending. With respect to the independent traveler, the current model directs the marketing organization to do a broad marketing program, an image campaign, which creates awareness of Alaska as a desirable destination. In fiscal years 2007-2008, independent traveler grants were used to target independent travelers, but there wasn't a move in the market as a result of the aforementioned campaign. However, it's difficult to measure the full effects of a campaign so immediately. Furthermore, the economic environment has an impact. Although there is room for some focused efforts, the primary directive of ATIA is a broad marketing campaign.

[8:23:50 AM](#)

CO-CHAIR MUNOZ inquired as to whether there's a strategy to target the yacht sector of the tourism market.

MS. MCCONKIE related that OED has a Developing Alaska Rural Tourism Program with the communities of Petersburg, Wrangell, and Coffman Cove. The OED staff working with that program felt the yacht sector has some real potential. While OED doesn't work with ATIA on that particular issue, OED does work with it through development programs. The way the various segments of the market are targeted is primarily through public relations and press releases. To reach each specific segment would diminish the ability to send out a broad message. Therefore, it's nearly impossible to target each specific product in the different regions. She relayed that typically it's the state's role to bring everyone in while it's the region's role to develop the products and bring people to the area. Ms. McConkie highlighted that OED works with a number of rural communities through a federal grant and it's a state/federal partnership.

[8:26:59 AM](#)

CO-CHAIR HERRON asked if the \$2.7 million industry match is historically high, low, or about the same.

MS. MCCONKIE related that in the early 1990s there was an infusion of marketing funding, which was likely the high period. In comparison to states such as Colorado, [Alaska's state contribution to tourism] is on the lower scale. She pointed out that Hawaii is identified as a competitor of Alaska because Hawaii and Alaska are often competing with international destinations. She pointed out that in most states tourism funding is on the line.

[8:28:48 AM](#)

REPRESENTATIVE MILLETT related her assumption that the cruise ships are doing their own marketing campaigns.

MS. MCCONKIE replied yes, and clarified that they've always done their own marketing. She recalled hearing that the cruise ships have spent \$70 million or more collectively on marketing. Therefore, they aren't dependent on the state's marketing.

REPRESENTATIVE MILLETT asked if ATIA coordinates with cruise ship destination marketing in order to avoid overlapping or duplicate marketing efforts.

MS. MCCONKIE responded that she didn't believe there is any coordination. In fact, ATIA and the cruise ship campaigns are distinct and separate from each other. The primary coordination has been that there are two-three members of the board from the cruise industry who sit on the board of directors as well as participate in the marketing committee. However, ATIA doesn't market directly to the cruise industry, which returns to the broad brush campaign. Ms. McConkie opined that it's inevitable that the same visitors are being reached through advertising in the same publication.

[8:32:07 AM](#)

CO-CHAIR HERRON inquired as to how Alaska can take advantage of Governor Palin's celebrity status to encourage visitors to Alaska.

[8:33:15 AM](#)

MR. AUSTERMAN highlighted that one of OED's roles is to compliment ATIA. He further highlighted that OED doesn't manage marketing budgets but rather programs such as the Developing Alaska Rural Tourism (DART) project, the Tourism Mentorship Assistance Program, and the Alaska Visitor Statistics Program.

The DART project is a partnership between OED and U.S. Economic Development Administration (EDA) that has been going on for a couple of program cycles. He said that a well known result of the DART program is the Chevak bird watcher. Mr. Austerman related that tourism is the low lying fruit to diversify Alaska's economy and the state is just now scratching the surface of what tourism can do to stabilize Alaska's economy. Tourism offers a lot of potential, he opined.

[8:36:06 AM](#)

MR. AUSTERMAN, in response to Representative Cissna, explained that the DART program offers workshops to help people flesh out their business plan. Since it's difficult to cover all the scenarios with a staff of three, [OED] addresses that by producing publications, such as how to run a bed and breakfast in Alaska, to provide assistance in entering the tourism business.

[8:38:04 AM](#)

REPRESENTATIVE GARDNER related her understanding that ATIA largely focuses on reaching independent travelers, which she opined is to the benefit of local Alaskan-owned businesses.

MR. AUSTERMAN said he believes that's correct. He related that independent travelers drop more money in the state than almost any other traveler.

[8:39:23 AM](#)

MR. AUSTERMAN, returning to his presentation, informed the committee that last week OED staff was in Nome providing a DART workshop, which was very well-attended. He reiterated that tourism is one of the most underdeveloped aspects of the state's economy. Mr. Austerman then moved on to forestry development for which OED has one industry expert who has been around for some time. After working with a very large value-added hardwoods manufacturer in the Lower 48, OED staff introduced birch as a replacement hardwood for veneers and the like. The manufacturer has recently committed a sizable amount of money in Petersville to develop a hardwoods plant, primarily to provide feedstock to its Lower 48 operation.

[8:42:09 AM](#)

MR. AUSTERMAN, in response to Representative Gardner, confirmed that the initial intent was to take the raw resource to the Lower 48. However, now this Lower 48 manufacturer has [coordinated] with a mill that has value-added potential. There is the prospect of developing a more efficient business model in which the value-added portion could occur in Alaska. There is the possibility of wood floor plank and veneer coming out of this arrangement, he relayed.

[8:43:18 AM](#)

CO-CHAIR MUNOZ asked if OED works with small businesses to obtain capital.

MR. AUSTERMAN replied yes, adding that OED works closely with agencies such as the Alaska Industrial Development and Export Authority (AIDEA). In fact, OED staff is evaluating Seward's pellet proposal in terms of whether Seward's reliance on Chugach Electric and Matanuska Light & Power (ML&P) for power could be augmented by pellets. The two agencies that may be involved in the aforementioned are AIDEA and the Division of Investments. The Division of Investments provides low income loans for small business development, especially with a rural emphasis. In fact, OED steers a lot of its tourism business people that need capital to start a project to the Division of Investments.

CO-CHAIR MUNOZ recalled meeting with a Ketchikan resident who is developing a wood chip product to use as an alternative heating source.

MR. AUSTERMAN said that OED has knowledge of that project and has offered its resources. He explained that OED through its industry experts and its economist offers its economic analysis to the public and steers those interested in starting a business to available resources.

CO-CHAIR MUNOZ pointed out that the Alaska Energy Authority (AEA) energy funding criteria is narrowly focused to just government and government-supported enterprises, which leaves out businesses. She requested comment on that and asked if OED has a position regarding expanding the eligibility criteria to promote entrepreneurs making significant impacts on energy.

MR. AUSTERMAN said that although OED sees opportunity for private involvement in addressing some of the energy issues throughout the state, the criteria, or program guidelines of the renewable energy fund is a question for AEA staff. He offered

to obtain that answer [from AEA] for the committee. He then commented that OED believes the private sector can be more efficient in solving some of these problems than the public sector, and therefore [the state] should be aggressive in helping those with ideas that would address some of the challenges to energy in rural Alaska.

[8:47:14 AM](#)

MR. AUSTERMAN, continuing his presentation, moved on to minerals development, which has a staff of two. He emphasized that OED is an industry advocate to the extent that it's good for Alaskans. The OED offers it's expertise to industry with regard to developing a certain deposit in a particular area, to the permitting process, to the licensing process, to the environmental process, and the tax model.

[8:48:05 AM](#)

REPRESENTATIVE GARDNER inquired as to what tax loading is as referenced on the document in Mr. Austerman's presentation entitled "Minerals."

MR. AUSTERMAN related that currently there's a community evaluating an extraction tax and OED staff is evaluating the impact such may have on industry and its decisions. The evaluation also takes into account what it will really take to administer the tax as well as what it will bring to the community. In further response, boroughs have severance tax ability and thus can add a tax on top of the state tax if the land is in the borough.

[8:49:26 AM](#)

MR. AUSTERMAN, continuing his presentation, said that OED performs a lot of outreach regarding minerals in order to encourage Alaska as a favorable location for investment. Mr. Austerman opined that there's a fine line between advocating for industry and ensuring [development] is good for Alaskans. He noted that OED strongly encourages local hire. He then suggested that one way to address local hire and obtain information would be the imposition of a small income tax tied to the permanent fund dividend (PFD) such that those who qualify for the PFD get the tax back while those who don't won't. Alaska is essentially a reverse tax state as people are paid to live here, he pointed out. The PFD application should be used

as a tool to gather better information about the state's economy.

[8:51:28 AM](#)

MR. AUSTERMAN moved on to fisheries development, and pointed out that OED works a lot with the Alaska Seafood Marketing Institute (ASMI). Although there are lots of areas of concern in fisheries, it continues to have much potential as well. The OED attempts to help with policy so that local fishing communities can keep more of the fishing dollars at home. The OED staff has been working on the Regional Seafood Development Associations (RSDAs), which bring fishermen together to tax themselves and allow the state the ability to re-appropriate the tax back to the region so that it can use it as it sees fit. He pointed to the Copper River Seafoods region as an example of good promotion of regional advantages of seafood. For example, Bristol Bay is looking at more icing and cooling capability with the aforementioned self-assessed tax. Cook Inlet is just looking into becoming an RSDA while Aleutia is a new RSDA.

[8:54:30 AM](#)

REPRESENTATIVE CISSNA recalled that the fishing industry was the second highest employer in the state. She then inquired as to whether there's a ranking of the state's industries.

MR. AUSTERMAN explained that without administrative mechanisms that other states have, OED has to rely on surveys. He pointed out that often these surveys are industry centric. He then reiterated that the PFD provides a mechanism that the state could use.

[8:56:38 AM](#)

REPRESENTATIVE MILLETT congratulated OED on some of the expansion in the tourism industry.

[8:56:57 AM](#)

REPRESENTATIVE GARDNER related that she has received a flurry of e-mails regarding farmed salmon in Alaska. She then highlighted the wild and free marketing of Alaska's salmon, which she suggested would be impacted by farmed salmon.

MR. AUSTERMAN informed the committee that OED has been involved in evaluating the potential of shellfish aquaculture in Alaska.

With regard to fish farming versus wild stocks, Mr. Austerman deferred to the ASMI representative.

[8:58:28 AM](#)

CO-CHAIR MUNOZ related that she has recently been asked to intervene and advocate on behalf of residents from other nations who want to establish a business. She encouraged some thought in regard to whether OED could play a role in helping individuals with communication difficulties in establishing a business.

MR. AUSTERMAN acknowledged that OED does have a Small Business Assistance Center web site and perhaps there could be review of how to address those with cultural challenges in navigating business development in Alaska.

[9:00:31 AM](#)

MR. AUSTERMAN, continuing his presentation, turned the committee's attention to film development, which is a new initiative. He opined that the film industry seems to respond to incentives. The regulations to support this new program are just being rolled out. He noted that the intent was to ensure [the program] is Alaska centric and good for Alaska. In doing so, the regulations were crafted tightly. He explained that OED will issue tax credits for 30 percent to 44 percent of the qualifying expenditures. The intent with the tax credit is to ensure that Alaska receives twice the amount of the tax credit in new money. Although the regulations are in the public comment process, the effective date of the initiative was last September. A prequalifying process was established and four production companies have [qualified]. In fact, Disney has already done work in Sitka and about \$5 million will be coming to Alaska. The estimated tax credit for the aforementioned four productions is about \$1.5-\$2 million, but the exact amount won't be known until the productions are complete. Disney has completed its production and is waiting for OED to finalize its regulation process to further define what will qualify for a tax credit.

[9:04:05 AM](#)

CO-CHAIR MUNOZ inquired as to what kind of tax credit, in the absence of a sales tax or income tax, it is.

MR. AUSTERMAN, using Disney as an example, explained that OED would issue a certificate to Disney with a value of \$150,000 and Disney would broker those funds to entities that have a corporate tax obligation and sell it at a discounted rate. He characterized the aforementioned as a win-win situation and acknowledged that most of the production companies won't have a tax obligation as their taxes are realized in California.

[9:05:04 AM](#)

REPRESENTATIVE GARDNER surmised then that basically it doesn't cost the state dollar-for-dollar in terms of loss from corporate income tax because the funds spent benefit the local community. Therefore, she characterized the tax credit as the state subsidizing the benefits to whatever community the [production company] is working.

MR. AUSTERMAN replied yes. He explained that the Department of Revenue (DOR) will administer this tax credit in the same way as oil tax credits for exploration. He noted that there are also commercial fisheries tax credits for equipment upgrades. Although this program is developed in a manner to hopefully broaden Alaska's economy, it's a net cost to the general fund.

[9:06:14 AM](#)

MR. AUSTERMAN, continuing his presentation, moved on to the Alaska Regional Development Organization (ARDOR) program. He explained that the ARDOR program provides economic development outreach opportunities to the various regional communities throughout the state. Therefore, [those communities] would benefit from OED's industry expertise in identifying resources that could be developed in the area. There is also the Small Business Assistance Center (SBAC), which serves as a great resource for those interested in doing business in Alaska. The OED also administers the Made in Alaska program. In fact, the Made in Alaska logo was just legally trademarked, which provides some legal teeth to enforce its use as there's a lot of pirating of the logo. A recent survey of those who pay the fee to use the Made in Alaska logo related that they definitely see the value in that logo. He noted that the Alaska Product Preference Program is an important program.

[9:07:26 AM](#)

CO-CHAIR HERRON then requested that Mr. Austerman provide the committee with any legislation that's of interest to OED as well

as some of OED's budget observations. He noted that he would ask Mr. Austerman back for a future meeting to fully flesh out [OED and what it offers].

[9:07:56 AM](#)

REPRESENTATIVE CISSNA expressed interest in regard to the cost of fuel and how AIDEA provides assistance. She further expressed interest in ensuring a competitive or equalizing advantage since the costs are often so much higher in rural Alaska, although the products of rural Alaska are what those in urban Alaska live off of.

Alaska Seafood Marketing Institute

[9:10:32 AM](#)

CO-CHAIR HERRON announced that the final order of business would be an overview from the Alaska Seafood Marketing Institute (ASMI).

[9:11:31 AM](#)

RAY RIUTTA, Executive Director, Alaska Seafood Marketing Institute (ASMI), Department of Commerce, Community, & Economic Development, began by informing the committee that ASMI is a public private partnership similar to the Alaska Railroad Corporation. He explained that ASMI is guided by a seven-member board of directors who are appointed by the governor. The ASMI is affiliated with DCCED. He noted that one of the ex-officio members of the ASMI board is the commissioner of DCCED. By statute, ASMI is the official seafood promotional arm for the state. The current mission of ASMI is to increase the economic value of the Alaska seafood resource and ASMI has been relatively successful with that mission. Mr. Riutta related that ASMI's role is to reposition the [seafood] industry as a competitive and market driven organization. The increase in seafood products produced in Alaska was made possible through an infusion of funds and tax incentives from the state and federal government. The aforementioned has dramatically improved the market position of the Alaska seafood industry over the last four to five years. In 2002 salmon was in deep trouble, but now it's in a better position.

[9:14:51 AM](#)

MR. RIUTTA, referring to a chart labeled "Funding," pointed out that ASMI has experienced some erratic funding from Outside, mainly federal, sources. He highlighted the [dark] blue bar on the chart that illustrates the large amount of federal funding that was received in 2005, which was parsed out over numerous years in order to have a multi-year marketing campaign. He then highlighted the red bar on the chart that illustrates what the industry has provided. As the value of the harvest has increased and the industry has increased its self-assessment, the industry contribution has steadily grown. Additionally, because of the additional funds from the industry and recently from the state, ASMI has been able to attract federal Market Access Program funds. The federal Market Access Program is how the overseas marketing for seafood is funded. He explained that for every \$1 [ASMI] provides, the federal government provides \$2. Therefore, ASMI is buying money from the federal government in order to perform the federal overseas marketing activity. He explained that ASMI's budget line is flat because it has managed to utilize some of the funding. However, in fiscal year (FY) 2010 the federal funding, save the Market Access Program funding, will be gone. Therefore, ASMI is asking for some general funds (GF) to offset some of those lost federal funds.

MR. RIUTTA then referred to a recent report from Northern Economics, which specifies that Alaska's seafood industry is worth \$5.8 billion in direct and indirect induced economic output to the state. That \$5.8 billion worth of output includes \$84 million in tax revenues, which includes a number of self-assessments. Some of the self-assessments that are included are ASMI, hatchery enhancement, and RSDA funds. This direct revenue to the state goes into the treasury to be dispersed as the legislature sees fit. The amount of revenue going to the boroughs and municipalities is in the \$14 million range. Mr. Riutta emphasized the importance of understanding that the aforementioned amount of funds is left to the discretion of the boroughs and the municipalities to spend on whatever it deems necessary. According to the Northern Economics report, the seafood industry is the number one employer in the state, which employs 54,000. He indicated that [the seafood industry] is the number three industry in overall economic value.

[9:19:12 AM](#)

MR. RIUTTA then turned attention to the salmon fishing sector, which is the largest sector that employs Alaskans, although it's not the most valuable part of the industry in terms of dollars. In fact, nearly three-quarters of all active salmon fishermen

are Alaska residents. The ex-vessel value, the price fishermen receive at the dock, was \$1.6 billion in 2007 of which salmon is about a quarter of that total while pollock and Pacific cod account for about 37 percent. He noted that the aforementioned is by value not volume, but the volume of the ground fishery represents about three-quarters of the total.

[9:20:41 AM](#)

REPRESENTATIVE CISSNA expressed interest in having the data available over time in order to review the changes in the fisheries growth and production.

MR. RIUTTA offered to make that information available.

[9:21:28 AM](#)

MR. RIUTTA moved on to slide entitled "Alaska Seafood Accomplishments", and opined that although the seafood industry has some good news, it faces some challenges in the coming year. Mr. Riutta then highlighted that the wholesale value for seafood, the value when the seafood leaves the state, is \$3.6 billion. That wholesale value is calculated after the harvest and with the in-state value added prior to further processing or distribution outside of the state. He then turned the committee's attention to the chart that illustrates the price paid to fishermen for Alaska's seafood harvest, the ex-vessel value, has risen from \$1.2 billion in 2003 to \$1.6 million in 2007. Although there have been some very large harvests during that time, the value has increased more than the increase in the harvest. He then turned to the graph entitled "Alaska Salmon Value Growth: Ex-Vessel and First Wholesale," which illustrates that the higher the wholesale value of the product, particularly with salmon, the more the fishermen can keep. In fact, when the first wholesale was around \$900 million for salmon, nearly 46 percent of that went to the fishermen themselves. Therefore, if the price can be kept up, more money goes to the fishermen and increases the ex-vessel value, which also increases the tax return to the state. Mr. Riutta highlighted that [ASMI] is active in the U.S. as well as the overseas market. He related that the growth in overseas sales has been about 34 percent in value from 2003-2007. The aforementioned is important since a little over half of Alaska's products go to the overseas market.

[9:24:50 AM](#)

MR. RIUTTA opined that ASMI has been successful in making the Alaska brand well known. He informed the committee that ASMI has been in business for well over 25 years and serve as the brand managers for the state's seafood. The ASMI, he further opined, has placed Alaska seafood on the menus of most of the restaurants in the U.S. In fact, Alaska seafood is the number two most menued brand among the top U.S. restaurant chains.

[9:25:38 AM](#)

MR. RIUTTA, in response to Co-Chair Herron, specified that Alaska's seafood is in [competition] with beef, pork, and chicken. However, Alaska's seafood is also in competition with Oreo cookies, Haagen Dazs ice cream, and other such popular branded items found on menus. He noted that some recent surveys of restaurants found that 77 percent of those surveyed who see the Alaska seafood brands in restaurants have a very positive impression. A recent survey regarding farmed versus wild salmon revealed that 84 percent will choose wild Alaska salmon over farmed Atlantic salmon from the menu of U.S. restaurants.

[9:27:24 AM](#)

CO-CHAIR HERRON asked if Alaska seafood is competing well in the foreign markets.

MR. RIUTTA replied yes, but he highlighted that Alaska competes as a state against countries. Therefore, Alaska is competing against the Norwegian Seafood Export Council that has a \$40-\$50 million budget and has fewer products to market than Alaska. Alaska is also competing with the Chileans, the Spaniards, the Canadians, and any other country who sells seafood overseas.

[9:28:19 AM](#)

REPRESENTATIVE GARDNER surmised then that if Alaska was to break its own farmed salmon rules, there would be a few who would benefit while the salmon industry as a whole would take a huge hit.

MR. RIUTTA confirmed that such would undercut ASMI's marketing message, which is based upon salmon from Alaska being wild and never farmed. If farmed salmon were allowed in Alaska, the entire marketing program would have to be changed.

[9:28:58 AM](#)

REPRESENTATIVE CISSNA remarked that responsibilities come with popularity, in terms of making a name for a product. She then recalled being in Paris in the 1970s and seeing beautiful Norwegian fish in the markets and messy Alaska fish. She inquired as to what is being done to help fishermen maintain the value that has been assured.

MR. RIUTTA informed the committee that quite a few years ago ASMI started a quality program that provides tools, training, and information from the point of harvest through to the point of sale. Moreover, ASMI has developed the seafood university that evolved from a seafood training program with Kroger's, a grocery store chain on the East Coast. The aforementioned was such a success that it evolved into an on-line training program for counter staff. He noted that there is a similar program for wait staff. While there are still cases of mishandling of Alaska's seafood, he opined that the presentation of Alaska's seafood in the market place has vastly improved.

[9:33:47 AM](#)

CO-CHAIR MUNOZ asked if ASMI has considered marketing low value good quality Alaska salmon, such as pink salmon, to countries with a major consumption of seafood.

MR. RIUTTA informed the committee that in the last three-four years industry has decreased production of pink salmon in a can from 70 percent to about 50 percent with the remainder produced as frozen filets. The industry itself has changed the product form of pink salmon and raised its value, although the value of pink salmon still isn't as high as sockeye. There is also a U.S. Department of Agriculture food aid program that ASMI took over. The aforementioned program looks for opportunities in the U.S. food aid program to provide canned salmon, and other less saleable products, to various countries in order to provide more protein in those markets. Through this program private volunteer organizations can place orders with the U.S. Department of Agriculture which then go out to the industries for bids. In answer to Co-Chair Munoz, Mr. Riutta confirmed that ASMI has explored marketing low value good quality Alaska salmon, but the aforementioned avenue has been found. Furthermore, the industry itself has also taken on the role of trying to raise the value of pink salmon through new value-added products.

[9:36:59 AM](#)

MR. RIUTTA, continuing his presentation, turned the committee's attention to the "Cook it Frozen" program, which has dispelled the myth that frozen seafood is bad. Much work has been done with chefs in order to show them how good Alaska's frozen seafood products can be through the Culinary Institute of America and other culinary schools. In fact, ASMI has a curriculum that it provides to culinary schools throughout the U.S. Mr. Riutta opined that the Cook it Frozen program is one of best programs in terms of changing attitudes and allowing Alaska's frozen products to demand a higher price because most of the seafood leaving the state does so in frozen form.

MR. RIUTTA then showed a slide from the Brussels Seafood Show, which is the largest seafood show in the world. In Brussels, Alaska competes against countries. However, the Alaska pavilion has the same footprint as the rest of the U.S. pavilion. The aforementioned stand to reason since Alaska produces over half of the seafood in the U.S. Most of the major companies in Alaska are present at the show as are many of the state's smaller seafood companies. The result of the investment in the three-day show in Brussels was \$31 million in on-site sales and \$125 million in follow-on sales. He then highlighted the various tactics used to work with consumers, including a tremendous amount of promotional materials

[9:40:19 AM](#)

CO-CHAIR HERRON inquired as to what ASMI has found to be the most favored advertisement by those in the business.

MR. RIUTTA answered that the most popular advertisement was an insert in various cooking magazines that had facts about Alaska seafood as well as a similar advertisement with chefs. Although there was a popular television advertisement with Ben Stein, it didn't receive nearly the positive feedback as the one-page inserts. In further response to Co-Chair Herron, Mr. Riutta related that the wild Alaska salmon image and wild Alaska image is huge in the marketplace. He pointed out that the reasons people want to visit Alaska are the same reasons people want to eat Alaska seafood, which is because it's a pristine environment.

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MR. RIUTTA, returning to his presentation, informed the committee that ASMI works with almost every retail chain, food service distributor, and restaurant chain in the country. He

then presented a slide illustrating the advertisement with Jack in the Box in which pollock is promoted. This past summer a sustainability forum was held in Anchorage; all of Alaska's fisheries managers were brought together to talk with ASMI's major customers. He noted that although there's a growing interest in the market place about sustainability, there's also some confusion with regard to third party certifiers who have begun to espouse what is and isn't sustainable. Work began last year to clarify sustainability. He explained that ASMI wants to ensure that everyone understands that seafood from Alaska comes from a sustainably managed resource. Sustainability, he emphasized, is specified in the Alaska State Constitution and is fundamental to the way business is done in Alaska. Still, organizations such as Green Peace have said that all Alaska pollock should be taken off the shelf because it isn't sustainable by its criteria. However, ASMI doesn't believe that, he opined.

[9:45:42 AM](#)

CO-CHAIR HERRON characterized [what some non-governmental organizations (NGOs) are saying in relation to sustainability] as a form of outside of Alaska influence that sends the wrong message about Alaska.

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REPRESENTATIVE CISSNA opined that quality is a hard standard to maintain and the best thing to do with critics is to listen to ensure that nothing is being missed. She then highlighted that in tourism marketing there are different niches. She suggested that there should be a gourmet fish tourism niche in which people learn how to cook Alaska's seafood.

MR. RIUTTA informed the committee that the aforementioned already exists. The ASMI has worked with Holland America, which has an onboard Iron Chef-type of cooking demonstration. In Juneau, there is a company that does celebrity chef cooking events with Alaska seafood. Mr. Riutta related his agreement with Representative Cissna regarding taking criticism and realizing that quality is key to the marketplace. The problem is that the premise of some of the nongovernmental organizations (NGOs) is that government can't be trusted, and thus the NGO has to be hired to ensure government is doing its job. The aforementioned is objectionable, he said.

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CO-CHAIR HERRON requested that Mr. Riutta share his observations with regard to the following: the recent community development quota (CDQ) groups with tax consequences on unrelated businesses [realized] with the profits of fishing; the Yukon king run that looks to be in trouble next year; and the new rural advisor who has strong ties to the fishing industry.

9:50:55 AM

MR. RIUTTA, continuing his presentation, pointed out that ASMI works a lot with celebrity chefs. For example, ASMI has been working with Alton Brown who has become a champion of Alaska seafood and sustainability. He then presented a slide that shows ASMI doing cooking frozen demonstrations, which generates much interest. He informed the committee that ASMI works with the university system. In fact, ASMI's food service director and technical director gave presentations to University of Massachusetts students and food service staff. In terms of the number of meals served annually, the University of Massachusetts is one of the largest campuses. At this point, wild Alaska week is part of the aforementioned university's menu. Most recently, ASMI has reached out to Stanford. He mentioned the Alaska seafood university that's located on ASMI's web site. He then reviewed the national campaigns, which were discussed earlier in regard to magazine inserts. However, in order to fit into the 2009 budget, ASMI moved away from the \$3-\$4 million domestic [magazine] campaign to about a \$1 million public relations campaign. Given last year's numbers with public relations marketing, this year's budget, a no-growth budget, seeks to maintain that marketing. Mr. Riutta said, "But we think that we're really at bare bones level with our budget to maintain our brand position." The rule of thumb in advertising is that for every year a brand isn't in the market, 25 percent of that brand power is lost each year. Mr. Riutta then turned to the international program, which he characterized as a big component. He reviewed the overseas contract offices, and added that ASMI actively markets in all of the overseas markets. Although Japan continues to be the largest customer of Alaska's seafood, it has decreased dramatically over the last four to five years. The markets in Europe and China are growing. In fact, China is the largest seafood consuming and producing nation. He highlighted that ASMI translates its materials. He also highlighted the Mr. Fish campaign in Japan. Moreover, ASMI does media tours both domestically and internationally. He pointed out ASMI's overseas efforts to educate and attend trade

shows. He noted that ASMI has discovered an emerging roe market in Russia.

[9:57:53 AM](#)

MR. RIUTTA opined that ASMI has built up a very powerful brand and enviable position in the market over the last few years. One of the largest threats facing [Alaska's seafood industry] is the credit crunch. He explained that many who want to purchase Alaska's seafood products need lines of credit to do so. Since there's not much that can be done about that, hopefully it will resolve itself. The credit crunch is resulting in some stagnation and price pressure. He said that ASMI will try to work with the industry to dampen that in the months and years ahead. Mr. Riutta said that since [Alaska's seafood industry] is facing uncertain and challenging times, he encouraged keeping Alaska's name out there to encourage purchase of the state's seafood products at a higher price.

[10:00:18 AM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 10:00 a.m.