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Salmon Strategy Task Force Recommendations



**Walter J. Hickel, Governor
Commissioner Glenn A. Olds, Chair**

**State of Alaska
Department of Commerce and
Economic Development
Division of Economic Development**

JANUARY 24, 1992

INTRODUCTION

Governor Hickel appointed the Salmon Strategy Task Force on August 15, to investigate the reasons for the 1991 salmon crisis and to review options for industry stabilization and recovery.

Alaskans should be proud of the courage of the people and companies that started this industry years ago. The people and lifestyle of the salmon industry are a fundamental part of Alaska's history, culture and way of life.

Alaska has been the world's leading supplier of salmon. The state's salmon industry now faces strong competition from many other sources and its dominant role is threatened. Traditional markets are no longer dependent on Alaska for their needs.

The entire world is producing salmon at a record rate. For many years, Alaska's salmon industry enjoyed a market strategy based on allocating scarce resources among competing customers. In less than a decade the entire system has changed. Now the competition in both traditional and developing markets is intense, and it's likely to stay that way.

In order to compete, and indeed survive in this new environment, it is essential that all participants in the industry recognize and accept the reality of these competitive changes. The industry is facing a crisis of considerable magnitude, requiring decisive short term action and long term action to prevent the crisis from recurring.

The 1991 salmon season has forced us to recognize that the Alaska salmon industry is at a crossroads. As with many other industries in America, we must recognize that traditional business practices are no longer adequate in the face of global competition. Reevaluation and action are required.

The Salmon Strategy Task Force has made several immediate and long-term recommendations which should alleviate the immediate crisis, help stabilize the industry, and plot a course to regain our leadership role in the marketplace.

The effects of the decrease in salmon prices are profound, putting at risk state loan programs, community stability, and tax revenues to all levels of government. The seafood industry is the state's largest private sector employer, with the largest resident private sector payroll. The failure of the state and the industry to take decisive action will result in continued weakness in this economic sector and put increased demands and safety net programs.

These will not necessarily be easy changes to make. It will take a substantial commitment of time, hard work, and money. We ask that the Administration, the entire salmon industry and the Legislature work together to support the implementation of these recommendations.

Charge to the Task Force

Governor Hickel's charge was to develop a strategy to generate maximum economic return to Alaska fishermen, processors, and the state as a whole, consistent with wise use and conservation of the resource. The Task Force is to make specific recommendations to the seafood industry, the Administration and the Legislature.

The group was to focus on methods to maintain existing markets, develop alternative markets and product forms, promote secondary processing, develop necessary infrastructure, coordinate production and marketing strategies, improve salmon quality control, optimize fish tax policies and improve fish harvesting and processing efficiency. The Task Force also delineated existing salmon markets and collected and distributed information to assist fishermen and processing companies in reaching agreement.

Conditions requiring study

The major factors distressing the industry are greatly increased competition, high inventory levels, low prices, and projections of continuing high production levels. The runup in prices 1986-1988 followed by declining prices since have left many fishermen with debt loads they cannot support. The declining markets have hurt processors, exporters, and end users holding product in a declining market as well. These factors led to serious price disputes and charges of price fixing in some quarters as the 1991 season developed.

The market outlook for the 1992 season may improve somewhat for sockeye, but extremely high inventory levels remain for pinks. These species represent the vast majority of Alaska production value and volume. The early, very tentative prognosis from Fish and Game is for another big production year.

Inventory of issues

An initial questionnaire went out to 350 recipients of the Alaska Fish and Game weekly catch reports in mid July. This was followed by a second mailing of 125 in late July that added all Alaskan salmon fishing organizations, processors and legislators. The mailing solicited opinion on the issues the Task Force should address. Some 70 responses (a 15% response rate) were received. Staff collated the responses and summarized them. These responses were then categorized under nine headings for presentation to the Task Force.

Selection of Task Force

The Governor announced the membership of the Task Force on August 15. It includes broad representation from the salmon industry, appropriate state agencies, and the general public. The group provides a good cross section of the industry and policy makers in state government, while main-

taining reasonable geographic balance and a practical size. The members are:

Honorable Richard Eliason of Sitka,
President of the Alaska Senate,
and a Southeast Alaska fisher;
Honorable Fred Zharoff of Kodiak,
Chairman of the Alaska Senate Rules
Committee and a Bristol Bay fisher;
Honorable Eugene Kubina* of Valdez,
Chairman of the House State Affairs
Committee;
Commissioner Glenn Olds,
Alaska Department of Commerce and
Economic Development;
Commissioner Carl Rosier*,
Alaska Department of Fish and Game;
Mr. Ed Crane*,
President of the Alaska Commercial
Fishing and Agriculture Bank;
Dr. Jerome Komisar,
President, University of Alaska;
Mr. Richard Lauber,
Vice President, Pacific Seafood
Processors Association;
Ms. Hazel Nelson*,
President, Becharof Corporation,
and Bristol Bay fisher;
Mr. Greg Seider*,
Executive Director, United Fishermen of
Alaska;
Ms. Sandra Tavanis*,
Co-owner, Sea Hawk Seafoods, Valdez;
Mr. Bob Van Brocklin,
Prince William Sound Aquaculture
Corporation; and
Mr. Robert Waldrop,
President of the Board, Alaska Seafood
Marketing Institute, and Vice President,
Silver Lining Seafoods, Ketchikan.

* Editorial Committee

Calendar of work

The Task Force met four times, August 29, October 7, November 1, and November 22. Agendas and summaries of the meeting minutes are contained in appendices to the full report.

At the first meeting, the Task Force selected which of the issues raised in the extensive mail-out solicitation to pursue. Five of the original nine survived; product and market development, reducing costs of production, getting reliable information, improving quality, and marketing salmon and ASMI's role. It also became clear there were several myths at work clouding the issues. Staff reworked the five issues passed by the Task Force in the first meeting into problem statements before the second meeting.

The second meeting started with presentations on various myths, including "everyone's making money but me," "it's all just a Japanese conspiracy," and "we should stick to business as usual, the customer just thinks they want something different." The Japanese market, salmon prices, margins and costs at various points in the industry, and ASMI's mission were discussed. The Task Force made changes to the problem statements and staff followed up the second meeting with extensive interviews of Task Force members and other experts to lay out the facts and options available to address the problems. A sixth problem was isolated and addressed in this process, the need for strategic planning. The persons interviewed, the questions asked and the options identified are in the full report appendix.

The third meeting started with presentations of the interview results and options gathered. The interview results form the main body of the full report. The Task Force then ranked the options available at that time. Some options were dropped. Staff reworked the options into general, specific, and detailed lists, and prepared a draft outline for the report.

The fourth meeting consisted of preparing some new recommendations for immediate action, and reworking the options that passed muster at the third meeting into the recommendations that follow. Some items were dropped. An editorial committee was appointed to oversee production of the report (see footnote above), and a schedule established for completion of the report.

Recommendations

The Task Force recommendations take into account budget cycles and priorities. In many cases requiring state agency action, existing budgets are not adequate to perform the recommendations. Additional funding will be required, not reprogramming of existing budgets. The Task Force expects the relevant agencies to prepare the necessary budget information, and respectfully requests full and favorable consideration by the Administration and Legislature.

RECOMMENDATIONS FOR DEALING WITH THE IMMEDIATE CRISIS

1. The Alaska Seafood Marketing Institute (ASMI) should develop a budget for immediate funding to deal with the existing inventory surplus before the 1992 season and projected 1992 production. This must be implemented as soon as possible¹.
2. Processors and fishermen should initiate market discussions early. The Task Force recognizes that the market situation will be uncertain at that time, and that the risk involved will lead to low price suggestions from processors, but recommends early discussions to provide maximum information sharing and opportunity to reach agreement. The Department of Labor (DOL) should be prepared to bring in knowledgeable mediators if necessary.
3. The University of Alaska (U of A), Commerce and Economic Development (DCED), and Fish and Game (ADF&G), should initiate and/or support efforts to expose the broadest possible range of Alaska fishermen to credible and detailed information about recent and ongoing changes, including problems and opportunities, in the world markets for salmon.³
4. The DCED Division of Economic Development should review the processing capacity situation in Prince William Sound, taking into account the outcome of the 1991 season, and make preliminary findings available to the Governor (and the industry) as early as is practicable. The Task Force recognizes that the capacity problems that developed in Prince William Sound were the result of the fishery being late and very concentrated, and the fish being relatively dark and small.⁴
5. The DCED Division of Investments and Alaska Commercial Fishing and Agriculture Bank (CFAB) recognize the crisis caused by low prices and the effect this has on loan payments. The Task Force encourages them to actively seek out fishermen having problems and work with them on loan extensions and other measures to minimize foreclosures.⁵

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1. The immediate ASMI program should be geared to long-term domestic market growth. The Governor could include this amount in his budget request, including a request for exemption from procurement codes for this emergency funding. The Legislature could pass this supplemental funding out as soon as possible in the session. ASMI could reprogram funds to initiate the campaign as soon as possible, prior to release of the funds, consistent with prudent financial management.
 3. Provide reasonably detailed but clearly written information on prices and markets for salmon for widespread distribution in the spring of 1992 and thereafter. The information could be updated in season. A goal should be to establish a clearer understanding of the effects of market conditions and dynamics on prices.
 4. DCED could prepare a supplemental budget to cover the costs of doing the necessary surveys for the PWS capacity determination.
 5. Reinstatement of state funding for the ABDC (Alaska Business Development Centers) program of outreach and business assistance in rural areas has been identified as an important component in dealing with financial hardship. This organization provides one-on-one assistance with loan workouts and dealing with the IRS that is not available elsewhere.

MID-RANGE RECOMMENDATIONS

General

1. The DCED, ADF&G, and Department of Labor (DOL) should consider promoting a closer and more trusting relationship among the interests involved in the issues concerning Alaska's salmon industry. This effort should be closely coordinated with other ongoing educational and consensus building efforts.¹

Product and Market Development

2. The Alaska Science and Technology Foundation (in fisheries area), and the U of A's Fisheries Industrial Technology Center, and Marine Advisory Program should be encouraged to expand their efforts in salmon product and market development and to coordinate their efforts in providing technical assistance and research and development in salmon products through the Alaska Fisheries Development Foundation (AFDF).²
3. The DCED's ability to provide international marketing information and sales assistance should be expanded. The Department's Division of Economic Development and Office of International Trade should work closely with ASMI and the Alaska Center for International Business (ACIB) to reduce risk and costs to the private sector.³
4. The DCED, ASMI and the Marine Advisory Program's ability to assist domestic marketing should be expanded. The Department's Division of Economic Development work closely with ASMI to reduce risk and costs to the private sector.⁴

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1. In the consensus building efforts, the agencies could organize forums and/or participate in existing trade shows and conferences. The issues examined by the Salmon Strategy Task Force could be presented and discussed with the objective of developing a consensus about the direction the state should take in the future regarding the harvesting, management, promotion and marketing of Alaska's salmon.
 2. AFDF has in place a proven industry board and ability to perform, but will require administrative funding to continue operations. Salmon industry representation on their board should be expanded.
 3. Specific projects could include:
 - Work to reduce tariff barriers for Alaska seafood products overseas.
 - Encouragement to foreign reproducers to purchase or joint venture value-added production in Alaska.
 - Continuing investigation of new markets for salmon overseas where disposable income is high enough, and seafood is commonly eaten.
 4. These entities could reduce risk and costs to the private sector of expanding domestic markets through:
 - Working with food service entities in Alaska and other states to promote sales and distribution of Alaska salmon products.
 - Providing start-up technical assistance to new ventures.

Quality

5. The Department of Fish and Game should reexamine management practices with the goal of obtaining the highest quality pack possible without harming the stocks.⁵
6. The Department of Fish and Game should conduct a comprehensive study in Southeast Alaska and Prince William Sound, with the cooperation of fishermen and processors, to determine the degree of risk managers should take in managing for economic efficiency and fish quality. The goal would be to identify the optimum locations for harvest.⁶
7. Industry and the Department of Fish and Game should cooperate on a program to educate fisheries managers, fishermen and industry operators on the physiological changes that occur in salmon (and hence its marketability) to encourage management that provides for the optimum use of the resource.⁷
8. Hatcheries should conduct research to determine the cause for variations in sexual maturity and other quality factors for stocks returning to hatcheries. Based on the research, hatcheries should modify their stocks and practices to optimize quality.

Marketing and ASMI's Role

9. ASMI, the FITC and the Marine Advisory Program (U of A) should expand educational programs on fish handling, cleaning, chilling, and processing for virtually all parts of the industry. Such efforts should focus on providing hands-on training from the fishing boat to the market, and on meeting the needs of the consumer for quality seafood. The effects of quality handling on the ability to market the end product should be emphasized.

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5. The reexamination of management practices could include changes in the length of openings and the timing of fisheries to optimize salmon quality. The Task Force recognizes that Fish and Game may need statutory and regulatory changes to incorporate such considerations in management decisions.
 6. A controlled set of experiments to determine the optimum points of harvest for top quality could include:
 - a. testing the condition of fish to determine rates of deterioration in terminal harvest and outer areas, throughout the duration of the run; and
 - b. identifying the optimum location which will provide the highest quality of salmon with an acceptable risk to the wild stocks.
 7. A study to examine the effects of sexual maturity on finished product quality could include the following:
 - a. samples in each of the categories in ASMI's Color Guide and hatchery broodstock would be collected;
 - b. portions of each category would be processed at least as headed and gutted, filleted and canned products; and
 - c. the end products would then be used in a workshop setting to educate managers on the various aspects of salmon quality.

The Task Force recognizes that a similar program budgeted at \$25,000 was considered and set aside by the ASMI board, and that it may be possible to achieve the same ends using commercially-processed products. ADF&G should prepare a budget item if necessary.

10. The Department of Commerce and Economic Development should initiate and/or encourage efforts to expose all salmon fishermen to organized, accurate and credible data concerning the salmon industry and markets in sufficient form and detail to permit fishermen's consideration of a national salmon marketing council chartered by the U. S. Secretary of Commerce under the Federal Fish and Seafood Promotion Act of 1986.¹⁰

LONG-TERM RECOMMENDATIONS

GENERAL GOAL

The state needs to develop a strategic plan for long term development of the salmon (seafood) resource, using recommendations of this task force as a starting point. This should focus on strengthening the support structure and sustainability of the industry. The goal would be a more rational and efficient system which is less vulnerable to market, production, and financial fluctuations. This would ensure an integrated and uniform state approach to the fishing industry.

OBJECTIVES:

- review and evaluate the institutions and relationships developed in the industry with an eye toward improving competitiveness and economic return to Alaska residents.
- bring together agencies and functions to affect a rational, consistent and sustainable program linking production, harvesting, processing, marketing and financing.
- determine the proper roles for the public and private components of the industry, integrating regulatory and developmental activities.

ACTION ITEMS

General

1. The Department of Commerce and Economic Development, in cooperation with other state agencies and the salmon industry, should organize a group with broad experience and understanding, in aggregate, of food and commodities industries, to:

10. The Federal Fish and Seafood Promotion Act of 1986 provides that species-specific councils (roughly parallel to the National Beef Council, etc.) may be formed only after a rigorous referendum process which must include all salmon harvesters and all primary processors or harvest purchasers and may include other industry participants. If properly organized and chartered, a "National Salmon Council" would have the power to assess the industry participants for funds to be used for salmon promotion and marketing, product research, consumer education, etc. It would also have the power to develop and offer, for Department of Commerce and Economic Development approval, salmon quality standards.

- a. review the functional and procedural workings of the Alaska seafood industry;
- b. identify areas of inefficiency, counter-productivity and resource waste.
- c. review and evaluate research and development capabilities.
- d. recommend what state resources, including statutes, regulations, prestige, etc., can and should be applied to address those areas.

Fish Production

- 2. DCED, ADF&G, and ASMI should develop an integrated production and marketing strategy, which would:
 - a. recognize marketability of the fish as an important management goal.
 - b. recognize that price will be set by overall supply and demand, including the production of farmed salmon.
 - c. coordinate production with wider economic goals, including processing, product development, and markets, based on dependable information and planning.
 - d. better coordinate wild and hatchery production, regionally and by species and market.

Harvesting/Processing

- 3. The Commercial Fisheries Entry Commission, DCED, and DF&G, should develop fishery management and regulatory measures aimed at reducing operating costs, more efficiently utilizing present investments, and promoting a rational sustainable industry. Investigate ways to retain permits in Alaska and rural areas in particular, provide greater stability and enhanced revenues to resident fishermen, and increased shoreside investment consistent with sound financial standards, through:
 - a. reexamination of loan policies and permit use limitations.
 - b. reexamination of Alaska's limited entry system.
- 4. To widen options for Alaskan fishermen, DCED, in cooperation with other state agencies and the industry should consider promoting Alaskan controlled joint venture processing developments linking present investors and industry participants with new technologies and capital, and Pacific Rim and lower 48 markets. Give special attention to rural communities dependent on the salmon resource, smaller plants, local consumption and market needs, infrastructure needs, and current economic development plans.

Marketing

5. DCED should contract a major marketing research firm with proven credentials in food marketing to develop and analyze the "facts" related to salmon market trends, opportunities and weaknesses in major and potential markets. The group should also evaluate the state and industry's marketing efforts, including consideration of changes in the ASMI statute or operations, to permit, if possible, a more effective approach to marketing Alaska seafood.⁵
6. The Governor and Legislature should consider funding ASMI's \$10 million per year proposal for an intensive 5 year domestic marketing campaign. The goal is to raise domestic consumption of salmon from 1 to 1.5 pounds per person annually.
7. DCED, in cooperation with ASMI and DEC, should conduct a study to find the most cost effective ways to improve consumer confidence in Alaska seafood products. The Task Force recognizes that the entire seafood industry must improve the inherent quality of the salmon it processes, the freshness and workmanship of the product, and the consistency of grading to remain competitive, particularly when competing with farmed salmon.⁷

Finance/Other

8. DCED, in cooperation with other agencies and the industry, should readdress the issue of infrastructure including but not limited to improving quality, providing cold storage capacity, and promoting value added production.
9. OMB, in cooperation with state agencies and the industry, should reexamine the policy and implementation of fisheries taxes, including the corporate income and marine fuels taxes. The State must first decide what it wishes to accomplish by taxation. While this is nominally raising revenues, any tax distorts the market in some way, and a review of the current tax structure and various proposed alternatives is in order. Of particular interest is whether targeted tax credits for research and development expenditures is feasible.

Reducing Costs and Regulatory Burdens

1. The Departments of Fish and Game and Revenue should consider combining the appropriate processor annual report forms to simplify reporting requirements for the industry. This should be done at an agency level with the agencies sharing information from each form or integrating them, and may require statutory changes.
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5. The efforts should take into account what's already been done (Salmon 2000) and focus on those areas outside ASMI's assigned and traditional role, including new product and market development. The results must be produced in a form which will permit evaluation and initiation of strategies to further enhance and stabilize markets.
 7. A great deal of the input the Task Force received identified the lack of consistency in Alaska salmon products as a major marketing problem. Some Alaska product has been described as "low quality" compared to the competition. As Alaska's products become better identified in the marketplace, the Task Force recognizes that "Alaska brand" seafood must be of "good" quality, and meet the customers' expectations if customer satisfaction is to be achieved and advertising dollars well spent. Exactly how to determine those inherent quality standards, and how to ensure that the customer consistently gets the product they have purchased and expect could not be reconciled. The industry is divided on how large a role the state should play in determining quality, ranging from mandatory grading standards to no standards beyond wholesomeness.

2. The Department of Commerce and Economic Development, in cooperation with other affected agencies and the industry, should investigate ways to assist small operators in meeting the myriad regulatory requirements of various agencies. This might range from exempting processors under a specified size from filing certain forms to providing a central clearinghouse for permitting and filing information, technical advisory services and special loans for equipment such as computers and computer software.
3. The relevant state agencies should, in consultation with the Limited Entry Commission, collect child support payments from permit holders at the time of yearly permit renewal. Permit holders will be motivated to pay this fee and it will not unfairly burden processors.
4. The Departments of Revenue and Labor respectively, should relieve the burden of prepayment of the Fishery Business Tax and provision of Labor bond for companies with proven payment records and sufficient assets.