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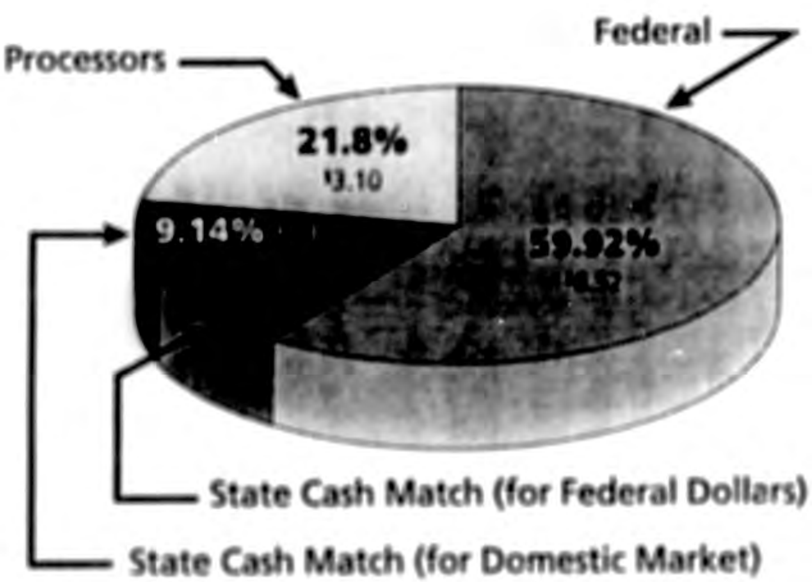
ASMI Funding Sources

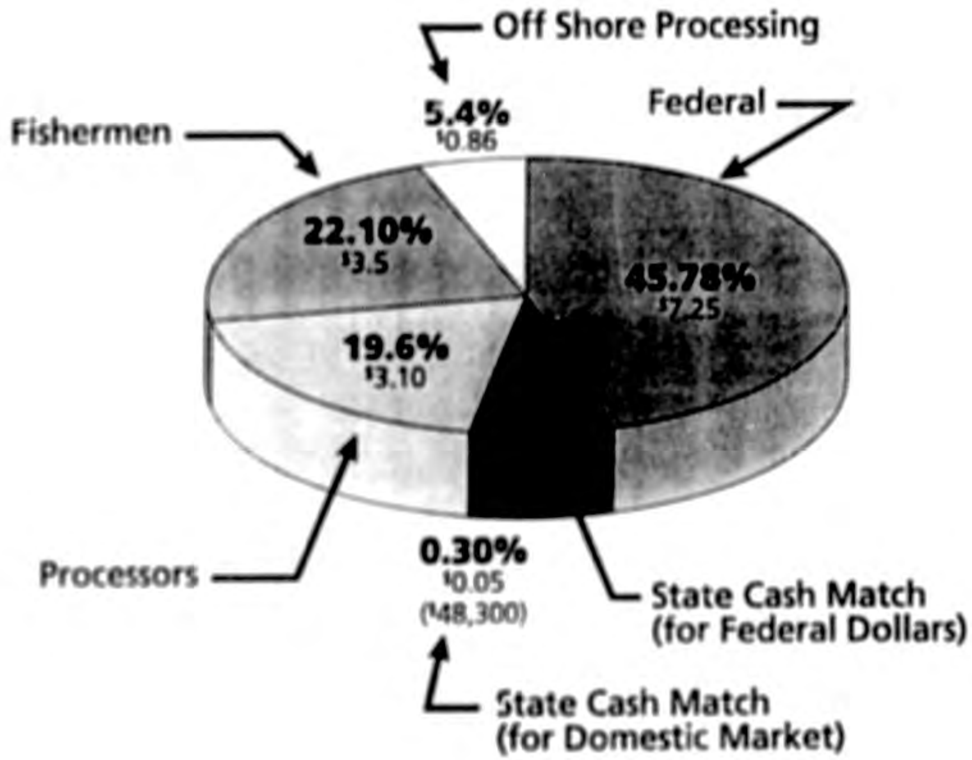
Fiscal Year 1993

Total Budget
$14.22 Million



Fiscal Year 1994

Total Budget
$15.84 Million



Federal dollars and State cash match for Federal dollars can only be used in the overseas markets. Currently, ASMI has programs running in seven countries—France, Japan, United Kingdom, Australia, South Korea, Italy, and the Netherlands. Processor assessment dollars are spent on multi-species campaigns in the domestic market, while the fishermen's contribution is spent totally on domestic salmon marketing.

MEMORANDUM

TO: Shelby Stastny, director, OMB

FROM: Kim Elton, ASMI executive director

DATE: February 4, 1994

RE: Unique Alaska Programs

Attached is a list of "unique Alaska programs" that is inaccurate in its depiction of ASMI in one respect and misleading in another. I received my list from a legislative office and understand the list had its genesis in OMB.

ASMI's mission is not a state mission unique to Alaska. The states of California, Louisiana, Virginia, Oregon, Hawaii, and Rhode Island also have seafood promotion commissions, though none match the financial resources of Alaska because industry receipts for the other states' programs are much lower. The State of Washington has a state sanctioned farmed salmon promotion council as well as a shellfish mariculture promotion group. A great number of states have agricultural product promotion councils. These range from New York wines, to Florida citrus, to Michigan apples, to California avocados. Like ASMI, most of these state promotion groups are funded by industry through state assessments or industry checkoffs, receive some state funds, and often receive federal dollars for promotional activities overseas.

The appropriation level for ASMI depicted in this list has a figure ($5.236 million) that is puzzling. First, by listing the figure under the heading "state funds", it is easy to assume that this figure for ASMI represents a $5.236 million "drain" on state coffers. Second, I can't find the figure of $5.236 million any place in our FY94 budget.

In fact, our state spending authority for FY94 for domestic marketing is $10.6 million--all but $48,300 of that spending authority is industry receipts in the form of a processor

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Alaska

assessment, a salmon harvester assessment, and a landing fee assessed on the offshore component of the fish processing industry. If industry receipts are less (and they will be this year), we spend only what we receive and don't go back to dip into the general fund. The only substantial participation by the state in ASMI promotional efforts is the $1.09 million in cash match that secures $7.251 million in federal funds for overseas marketing of salmon. That is smart state spending--put out 15 cents and get a dollar back.

I apologize for commenting by memo but it would have been helpful for the author of this list of "unique Alaska programs" to have contacted ASMI so the above information could have been passed along at the beginning of the process rather than after the list was completed and disseminated. The budget task confronting the legislature and the governor's office is immense but the process is more easily accomplished when state agencies speak with accuracy and precision.

cc: Members, Alaska State Legislature
David Wilder, ASMI board chair
Paul Fuhs, commissioner, DCED
Nancy Slagle, director, OMB Division of Budget Review
Brad Pierce, OMB staff

ALASKA SEAFOOD MARKETING INSTITUTE

MEMORANDUM

DATE: February 8, 1994

TO: Nancy Slagle, Director
Division of Budget Review
Office of Management and Budget

THRU: Guy Bell, Director
Division of Administrative Services
Department of Commerce and Economic Development

FROM: Kim Elton, Executive Director
Alaska Seafood Marketing Institute

RE: FY95 Budget Amendment Language

The Alaska Seafood Marketing Institute (ASMI) requests an FY95 budget amendment to appropriate ASMI program receipt balances of June 30, 1993 and June 30, 1994 for expenditure in FY95. The program receipts are collected under AS 43.76.110, (salmon marketing tax) and AS 16.51.120 and 15 AAC 116.600 (voluntary processor tax) and are restricted for marketing of Alaska seafood products.

This appropriation is necessary to enable ASMI to receive and expend tax revenues in the following fiscal year of receipt date as the most effective manner to promote marketing of seafood products. This amendment allows sufficient flexibility to compensate for the vulnerable funding methodology when utilizing only industry receipts. This complete dependency on tax revenue was the result of eliminating of all but $49.6 of general funds with passage of the salmon marketing tax in 1993.

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The ASMI revenue flow is seafood product price and volume dependent (based on a percentage of ex-vessel value), and also dependent upon timely submission of tax payments. It is extremely difficult for ASMI to accurately manage program budgets based upon volatile revenue receipts. Processor taxes are due by April 1, for the previous calendar year, but not all taxes are received in a timely manner. As an example, in FY93 ASMI's second quarter processor tax projections were approximately $3.6 million. This projection was subsequently revised down to $2.7 million in the third quarter based upon slipping prices and projected receipts by Department of Revenue. This was subsequently revised again up to $3.1 million in June based on Department of Revenue actual receipts. Final tax receipts post reconciliation totaled $3,559,953 of which $432,653 became available to ASMI from the Department of Revenue after June 30, 1993.

This problem is further complicated in FY94 by implementation of the salmon marketing tax which is collected by the processor and remitted to the Department of Revenue within 30 days of product transfer. For FY94 the Department of Fish and Game projects that ASMI's salmon marketing tax revenue is over $3.9 million based upon fish harvest tickets. Given the cycle of salmon openings, all of these taxes should have been submitted to the state no later than November 1993. As of February 1, 1994 only $2.77 million has been remitted, leaving an excess of $1.0 million uncollected. Depending upon audits and other uncontrolled variables, these uncollected funds may become available either at the end of FY94, or possibly in FY95 or FY96.

ASMI's FY94 total program receipts are projected to be $6.5 million, of which only $2.77 million will be available prior to the fourth quarter. Since 60% of ASMI revenues will not be available until the last months of the fiscal year, it is impossible to accurately match revenues and expenditures to assure sound program management. In order to maximize use of these industry resources without risking over expenditure, inappropriate last minute encumbering or lapsing of unobligated funds, ASMI requires the flexibility to receive and expend these revenue balances in the subsequent fiscal year.

Failure to obtain flexible receipt appropriation authority poses a significant threat to ASMI's ability to utilize program revenue to market products that directly affects the economic well being of the Alaska fishing industry. A marketing program effectiveness is significantly diminished when long range planning is not feasible because revenue flow methodology.

Thank you for your assistance and if you have any questions or concerns please feel free to contact me at 5560.

Salmon fleet frets as Tokyo sockeye prices plunge

By HAL BERNTON
Daily News business reporter

The price Alaska red salmon sells for in Japan has plunged to its lowest level in 13 years, a possible grim sign for the coming summer salmon season.

The state Office of International Trade, in a recent fishery update, says frozen Alaska red salmon is trading wholesale for as low as $4 a kilogram, compared with $10.72 a kilogram in March 1992.

While the price has been falling for nearly two years, in recent weeks the decline has intensified as a surge of fresh farmed salmon has reached Japan.

"It's pretty dismal, and nobody knows whether we have reached the bottom or not," said Alec Brindle, president of Ward's Cove Packing Co., a major Alaska salmon processor.

Japan is the world's biggest buyer of Alaska salmon, and market events there have the power to make or break seasons for state fishermen.

Last year, as Tokyo wholesale markets sagged, the price paid to fishermen for Bristol Bay red salmon fell to 60 cents a pound, compared with more than $2 a pound in the late '80s. Fishermen say they fear the continued decline of Tokyo markets could push Alaska prices significantly lower this summer.

"I would have to characterize it as an industry in crisis," said David Wilder, a Bristol Bay gillnet fisherman recently named chairman of the Alaska Seafood Marketing Institute. "A lot of guys are highly leveraged (with debt) and just aren't going to survive."

The fishermen with the most problems are those with big payments to make on new boats or limited-entry permits bought when salmon markets were peaking.

Both fishermen and processors now are struggling to come to terms with what some see as fundamental changes in world markets.

One change is in Russia, with an industry dramatically increasing wild- and hatchery-salmon exports to gain hard currency. Those

Please see Back Page, FISH

Fishermen owe $13.7 million in unpaid taxes

By HAL BERNTON
Daily News business reporter

More than one-quarter of the 8,802 Alaskans holding limited-entry fishing permits are either behind in their taxes or have failed to file returns, according to the Internal Revenue Service.

Alaska salmon fishermen hold most of those permits, and recently released statistics offer the first look at their overall tax problems. The permit holders owe an estimated $13.7 million in back taxes, the IRS reported in a summary of the delinquent accounts.

Sen. George Jacko, D-Pedro Bay, has introduced a bill to make commercial fishermen who own limited-entry permits eligible for state loans to help pay federal taxes and child support. According to Jacko, Senate Bill 151 would prevent fishermen from being forced into a position where they would sell their permits — the state-issued documents that give them the right to join in regional harvests.

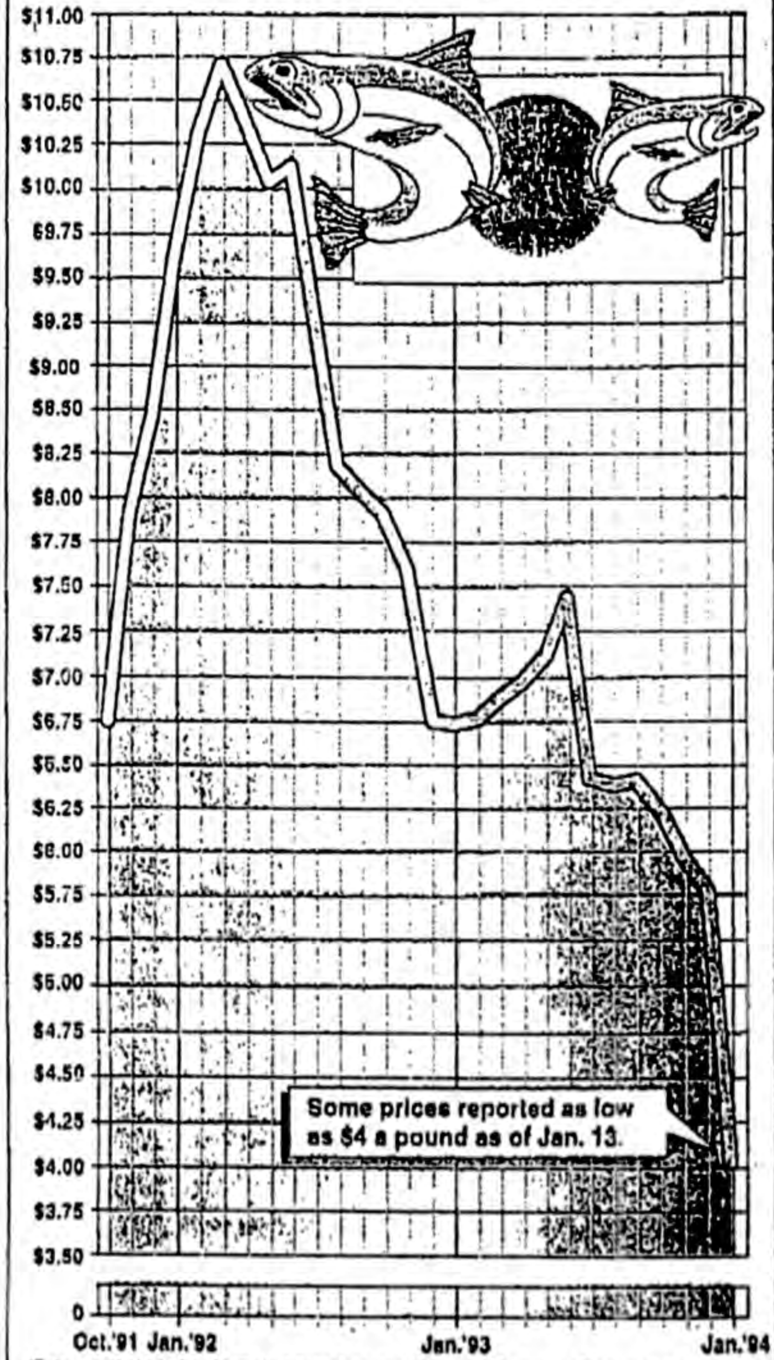
"When they sell out their permits, they go more often to people out of state than in state. The state has an interest in keeping them here," he told The Associated Press.

Many fishermen fear the IRS will try to seize their permits, which can be passed on from generation to generation or sold.

Please see Back Page, TAXES

Price drop for Bristol Bay reds*

Tokyo market price by month from Oct. 1991 through Jan. 13, 1994



*Tokyo central wholesale market list prices per kilogram of frozen sockeye salmon

Source: Alaska State Office, Tokyo

RON ENGSTROM / Anchorage Daily News

Continued from Page A-1

exports to Japan last year increased by 150 percent, according to statistics from the state Department of Commerce and Economic Development.

But the big new force on world market is salmon farming, which is banned by law in Alaska. Just a decade ago, salmon farmers barely had a toehold in world salmon markets. Since then, the farmers, who raise salmon in saltwater pens, have captured a third of the world salmon market, according to statistics from the state Commerce Department.

The fish farmers' assault on world markets has been led by Norway and Chile, and both nations keep expanding production each year.

"Alaska no longer drives the salmon market," said Rick Lauber, a Juneau vice president of the Seattle-based Pacific Seafood Processing Association. "It's driven by Chile and Norway."

Farmed salmon are flooding Japan at a time when a weak economy there has dampened consumer demand, said Gunnar Knapp, a University of Alaska Anchorage economist who studies the Japanese market.

> *"Alaska no longer drives the salmon market. It's driven by Chile and Norway."*
>
> — Rick Lauber, Pacific Seafood Processing Association.

Farmed salmon also has flowed into Lower 48 markets. And it has grabbed away European markets from Alaska fishermen.

The state Commerce Department has been working with the salmon industry to come up with a plan to help processors and fishermen survive in tough times. The state already has a big financial stake in the industry, with more than $130 million loaned to fishermen and aquaculture associations that produce hatchery salmon runs.

Most of the new proposals — still in draft form — are aimed at helping the industry either improve the quality of Alaska salmon or add value to finished products.

The proposals include a possible state loan program to help boat owners add refrigeration units, a $50 million state endowment to fund research for new products and tax credits to buy equipment that would increase quality or value of salmon products.

Fishermen also have begun taxing themselves to raise more money for marketing, and many hope to try to increase sales in the Lower 48. The tax on last year's harvest is expected to raise about $3 million, and the salmon marketing institute — recently expanded to include more fishermen on its board — will decide how to spend that money; said Paul Fuhs, the Commerce Department commissioner.

Some fishermen also are beginning to wonder whether the industry may need to begin to reduce the size of the fleet that now harvests Alaska salmon. In Prince William Sound, for example, low prices and weak runs have taken the profit out of seine boat operations.

At times, a half dozen or more seine boats line up at a prime fishing spot, waiting for hours to set their nets.

"Considering the ever-increasing efficiency of commercial fishing boats and gear, it's possible that our existing salmon resources cannot support a fishing fleet of this size," wrote Mary McBurney, executive director of the Cordova District Fishermen's United, in a December letter to Fuhs.

McBurney asked Fuhs to study the possibility of a state buyback of limited-entry permits that enable fishermen to harvest Sound salmon.

Wilder, the Bristol Bay fisherman, said he would favor a tax on bay fishermen that could be used to buy back bay permits.

Fuhs said buybacks are a sensitive issue because reducing the fleet size can change the whole social fabric of communities. "This is the first time you've had fishermen willing to look at this," he said.

TAXES: Fishermen owe millions to Internal Revenue

Continued from Page A-1

The IRS has already seized some permits and auctioned them off. But the state has refused to authorize the transfer of seized permits sold by the IRS. The IRS is now in court seeking to define the requirements for state transfer of a seized permit.

Some fishermen in recent years have been battered by low prices and — in some areas — weak returns that have gutted savings and left them unable to pay the IRS or any other creditors, said Steve Shamburek, an Anchorage attorney who has toured rural areas and counseled fishermen as part of a "Bad Times" group of state and financial consultants.

The tax statistics indicate that most of the delinquent payments don't involve huge sums of cash, said Bruce Twomley, chairman of the state Commercial Fisheries Entry Commission, which obtained the statistics from the IRS.

"A lot of folks are in trouble but at a level where — with appropriate assistance — they might be able to work out their problems," he said.

According to the IRS, 1,173 Alaska permit holders have failed to file returns, and 1,111 owe money. Of those who owe money:

- 827 owe $10,000 or less.
- 130 owe between $10,000 and $20,000.
- 101 owe between $20,000 and $50,000.
- 32 owe between $50,000 and $100,000.
- 21 owe more than $100,000.

The regions with the biggest tax problems include Bethel, Bristol Bay, the Kodiak Island, Lake and Peninsula, and Kenai Peninsula boroughs.

There will be plenty of wild salmon from Alaska this year, even if the total is down from 1993's blockbuster season. As detailed in the table below, the Alaska Department of Fish & Game is expecting a 1994 salmon catch of 167 million fish. This compares to the 1993 projection of 173 million salmon and the actual 1993 catch, a new record, of 193 million salmon.

Comparing 1993's catch with 1994's forecast, there are 9.1 million fewer reds, a million less coho, 12.7 million fewer pinks, 2.6 million fewer chums.

The 1994 sockeye catch is projected to be 55.9 million fish, down from 1993's actual harvest of 65 million. Bristol Bay will again be strong, with an expected catch of 39.6 million sockeye, close to 1993's catch of 40.8 million. Upper Cook Inlet, Chignik, Kodiak, North Peninsula will be down.

Look for fewer pink salmon from Alaska next year, though the catch will still be large. This year's forecast calls for 96.3 million pinks compared to a 1993 catch of 109 million. The big question will be Prince William Sound, which failed last year. The difficulty this year will be caused by the small returns of wild fish and the forecast of a huge return of hatchery pinks.

The projected chum catch for 1994 is 9.5 million fish. This is down from the 12.1 million chum caught last year, a year in which the chum runs in western Alaska failed completely. There is no explanation for the failure.

A bad sign for selling prospects, the Japanese market continues to fall. Frozen Bristol Bay sockeye wholesale at Tokyo's Central Market under Y600/kg., with 4-6s at Y550/kg. vs. Y780-Y850/kg. a year ago and Y1,150/kg. in 1992.

Japanese cold storage holdings are worrisome. They are up over the prior year. At the end of November, there were 128,265 metric tons of frozen and salted salmon on hand in Japan. While this is down from October's 134,038 tons, it's still well above the 105,183 tons on hand in November 1992.

There is plenty of frozen salmon in U.S. cold storages, though holdings aren't as burdensome as in Japan. At the end of December, there were 22,197 metric tons on hand, down from the 23,836 tons on hand in December 1992.

Some U.S. marketers have put together retail programs for frozen salmon. They are using pinks and small chums that wholesale for \$.60-\$.80/lb. and can get onto retail counters for less than fresh Atlantics or kings. The price could do the trick, even when B.C. farmed kings are on special at \$3.49/lb.

1994 ALASKA SALMON FORECAST
(000s of fish, by species)

Area	Chinook	Sockeye	Coho	Pink	Chum	Total
Southeast Total	278	1,960	2,600	47,000	3,700	55,500
Cordova	44	1,180	590	24,100	1,090	27,004
Upper Cook Inlet	15	2,000	400	600	250	3,265
Lower Cook Inlet	1	272	13	595	111	992
Bristol Bay	76	39,600	157	1,140	1,040	42,013
Central Total	136	43,000	1,160	26,400	2,490	73,200
Kodiak	25	2,430	325	13,700	610	17,090
Chignik	7	1,900	200	1,300	200	3,607
South Peninsula	10	4,000	300	7,000	1,600	12,910
North Peninsula	16	2,500	200	100	250	3,066
Aleutian Islands	0	5	0	300	0	305
Westward Total	58	10,830	1,020	22,400	2,660	36,900
AYK Total	156	134	625	553	600	2,060
1994 PROJECTED	628	55,900	5,410	96,300	9,450	167,000
1993 PROJECTED	602	48,000	5,380	107,300	10,000	171,000
1993 ACTUAL CATCH	648	65,000	6,010	109,000	12,100	193,000

The Almanac

How bad is the market for salmon?

228 501

Alaska's share of the world salmon market a decade ago: **43 percent.**

Alaska's share today: **31 percent.**

Farmed salmon's share of the world market a decade ago: **Virtually zero.**

Farmed salmon's share today: **33 percent.**

Alaska's share of the Japanese salmon market in 1988: **85 percent.**

Alaska's share of the Japanese market in 1992: **57 percent.**

Amount Chile is projected to increase its farmed salmon production: **30 percent per year.**

Chile's prime markets: **Japan and the United States.**

Amount Russia increased its salmon exports to Japan in 1992: **150 percent.**

Price Russian pink salmon sell for in Japan: **4 cents a pound.**

Price of Alaska pink salmon in 1988: **77 cents a pound.**

Price of Alaska pink salmon in 1993: **12 cents a pound.**

Price of Bristol Bay sockeye in 1988: **$2.25 a pound.**

Price of Bristol Bay sockeye in 1993: **60 cents a pound.**

Number of Alaska fishermen who have requested loan extensions from the state's loan program over the past three years: **1,200.**

Source: Alaska Department of Commerce and Economic Development

Work together now

The bleak news about the declining Japanese wholesale price of sockeye salmon is frightening — for Ketchikan and for the state.

It's scary for Alaska because the Japanese wholesale prices likely will mean a lower price paid to Alaska fishermen this season for sockeye. This comes after the 1993 season when Bristol Bay fishermen received 60 cents a pound for the product, compared to more than $2 a pound in the late 1980s. Bristol Bay is home to the largest sockeye fishery in the state.

It's scary for Ketchikan, because the Bristol Bay sockeye fishery usually sets the scale for salmon prices statewide. There also are many here who travel to Bristol Bay to fish.

The news is a continuing blow to an industry that has been faced with plummeting salmon prices in recent years. That, coupled with the tough times faced by the timber industry, could have a profound impact on the First City. Fishing and timber are two of the three legs that sustain our economy.

Now is the time for the industries, the community, the region and the state to come together.

Fishermen and loggers need to work together to help save each other's industries, especially because their resources affect each other.

Those within the industries need to reach common ground. It was encouraging that for the first time the three commercial fishing gear groups — seiners, trollers and gillnetters — voluntarily got together to discuss their future during the Board of Fisheries meeting in Ketchikan.

Ketchikan needs to take a stance and fight for its industries. That has started with the Ketchikan 2004. The 2004 forums will focus on all components of our economy and discussions will center on how the economy can be strengthened. The forums will include panel discussions by respected leaders in the fishing, timber and tourism industries.

But it shouldn't just be up to our industry and community leaders to figure out a game plan for our future. Ketchikan citizens, who all rely on the economy, need to speak out.

Like C.L. Cheshire, director of the university's Ketchikan Economic Center and an organizer of the event, said: "We need to have community involvement. If we just have a plan, we've wasted our time."

Ketchikan also needs to keep working with other communities in the region to bring about an unified voice. That unity will strengthen our stance at a state level.

The state will continue to be forced to take a hard look at the region's problems, such as those in the timber industry.

The state needs to continue to approach the fishing industry in the same fashion, as its economic impacts reach all corners of the state.

It might be tough but everyone needs to face the facts. Alaska salmon is no longer number one on the Japanese market. It has been pushed aside by a glut of farmed salmon and Russian salmon.

Russia's salmon imports to Japan increased 150 percent in 1992. Norway and Chile have been producing more farmed salmon to satisfy Japanese needs. The wholesale price in Japan is less than half of what it was just two years ago. One leader in the fishing industry said that he didn't know if we had reached rock bottom yet.

It's time to do something. It's time to brainstorm and come up with new ideas to break our dependence on the Japanese fish market. It's time to make changes that will save our industries.

The answer is to work together within the industries, within the community, within the region and within the state to make a difference nationally and internationally.

Our livelihoods depend on it.

Juneau Empire 2/7/94

State should aid salmon industry

Falling prices create a crisis

The following editorial appeared recently in the Ketchikan Daily News:

Teamwork and diversity, that's what it is all about. The Alaska fishing industry is in a crisis. Salmon prices continue to plummet as worldwide competition increases.

Fishermen can catch all the fish they want, processors can package it, but if there isn't a market for it, the resource doesn't do us much good.

Alaska is being pushed aside in the Japanese market by increased production from other countries. But there is another opportunity here in the United States. If we don't continue building on our domestic marketing program, Alaska will lose that opportunity to foreign companies.

Reports are that Chilean farmed salmon are being sold in Florida for $1.80 a pound. Alaska needs to move fast to target the basically untouched domestic market.

Chicken, beef and pork are staples in most U.S. households. It's time salmon and other seafood be included in the weekly dinner menus. But the average consumer doesn't know how to fix salmon. We need to educate consumers, and we need to convince traders about the benefit of seafood.

Most of all, we need to diversify.

Salmon can be fixed in a variety of dishes. There has been some experimental work done in Alaska to develop value-added products, such as microwave menus. But there needs to be more work.

Convenience is what will attract U.S. consumers to buy salmon. To expand the marketplace, there has to be cohesiveness and not divisiveness in the industry. There has been some movement by Southeast fishing gear groups to come together. We hope that continues to build. We hope strong relationships are fostered statewide to give strength to the entire industry.

The industry also needs to form a group devoted to developing ways to break into the domestic market.

Other industries have taken such steps and have been successful. Turkey, for instance, is now a year-round food product.

It is encouraging that money for domestic marketing will quadruple this fiscal year from the new 1 percent tax paid by salmon fishermen. About $4 million will be available for such marketing. That's a start. But more money will be needed to do the job.

The Washington apple industry, for instance, spent approximately $7 million on a promotion touting its fruit. An "Eat Beef" promotion cost about $27 million.

But to be successful, it isn't all up to industry. The state needs to support the industry. Our state is fortunate to have such a viable resource. But there needs to be more research and more development.

Our policy makers need to realize that the fishing industry is in a crisis. Some progress is being made, but at a snail's pace. Let's make this industry a priority before we lose the one untapped market we could make successful here in the U.S.A. We can no longer depend on the old ways of relying solely on the Japanese market.

We need to look at new, innovative ideas. For that to happen, the industry and state need to work together. This resource is too precious to waste.

JUNEAU EMPIRE