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System obtains borrowed funds. The high credit rating given to the system by the market is reflected in the low money market rates (because suppliers of funds to the system require only a small risk premium over guaranteed issues of the Federal government, even though the system's issues are not guaranteed) at which it can borrow, and it is reflected in the types of depository institutions that are eligible to acquire the system's security issues. As mentioned, the Banks for Cooperatives make loans directly to qualifying cooperatives, whereas the Federal Intermediate Credit Associations, which are the local lending agency in the production credit system. The Federal Land Banks, in contrast, make loans directly to farm businesses, using the FLBA as its local agent for generating loans and developing supporting documentation.

The lending institutions in the Farm Credit System having aquatic lending authority (BC and PCA/FICB) usually require security, except for lines of credit established for proven creditworthy customers. The borrower is usually required to acquire an equity position of around 40% in the assets for which a loan is sought. Also, borrowers must acquire membership capital in proportion to the amount of their loan. The interest rates paid by borrowers are reflective of: 1) current money market rates (variable rate instruments are utilized); 2) the margin required to cover the operating expenses and reserves of the District Bank (usually between .5% and 1%); and 3) for PCAs and FLBAs the margin required for operating expenses and reserves (usually between .5% and 1.5%). The average effective net interest rates paid by borrowers are typically somewhat less

than the stated rate due to patronage refunds.

Cooperatives and the Banks for Cooperatives

It is the purpose of this section to describe the aquatic lending program of the Banks for Cooperatives and to discuss the potential for expanding the program in Alaska. Before proceeding, however, it may be instructive to describe the economic and organizational substance of the cooperative form of organization. This is accomplished by a discussion of the underlying economic factors which determine the viability of a cooperative.

Like other forms of organization, the cooperative form is well suited to certain circumstances and ill suited to others. This means that changing to the cooperative form is not necessarily a cure for situations where perceived business opportunities persistently fail to be realized under other organizational forms. The legal form of organization of a business is only one of the dimensions necessary for success; in many circumstances it may be the least important. There must also be an economic need sufficient to provide a competitive rate of return on investment; there must be entrepreneurial and managerial ability and labor resources that are competitive with other firms in the same business (which is reportedly difficult to obtain in some rural areas even when such labor does reside in the community, because the wage scales of public employment programs and the public works programs exceed those at the private sector); and there must be capital available to finance the productive activity of the firm. More basically, and this is usually assumed without mention, there must exist a profit motive where human

resources respond to opportunities for a higher income and for the accumulation of wealth by providing their services and by a willingness to assume risks. In the absence of one or more of these basic ingredients to a viable economic enterprise, the organizational form is likely to be of secondary importance. That this is correct is suggested by the observation that the history of fishery cooperatives is at least as much of a history of business failure as it is of success.

In addition to the fundamental ingredients mentioned above, cooperatives require additional characteristics not required of other business organizations. These are: 1) a commonality of interest among a relatively large member group; 2) a willingness among members of the group to sacrifice short-run economic freedom for a common cause; 3) a willingness to invest in (take risks in) and patronize a business that is secondary to the primary activity of the members; and 4) sufficient financial strength and membership commitment to withstand short-run predatory pricing behavior and other predatory tactics of firms with which a cooperative begins to compete. The last requirement exists especially for cooperatives because they are usually formed in response to a perceived or actual failure of existing businesses to meet the needs of its members.

The primary difference between the internal control of a cooperative and that of other business forms derives from the fact that, in a cooperative, internal control is democratic; voting rights are spread equally among members, rather than control being proportional to equity ownership. Equity ownership in a cooperative is basically proportional to patronage. The

democratically elected Board of Directors of the cooperative is typically responsible to the membership for establishing policy and for hiring and retaining competent management. Notwithstanding the organizational differences, and assertions by romanticists to the contrary, cooperatives are profit-oriented institutions to which standard criteria for evaluating business success apply. (The accounting data used for such evaluation may require some modification, however, depending upon the pricing practices of the cooperative in question.)

The Traditional Model of Cooperative Development: The formation of a cooperative usually follows a predictable pattern. An individual experienced with cooperative businesses is called upon to educate an interested core group of potential co-op members. In seeking this input, the core group is responding to a perceived unsatisfied need of a group of farm or aquatic businesses of which the core group is a part. If, based upon the initial information obtained, the core group believes a cooperative is desirable and feasible, it must proceed to educate the larger group about the realities of forming a cooperative. The most pressing realities are: 1) the need to obtain equity capital for the cooperative from among its (potential) members; 2) the need for a strong patronage agreement between members and the cooperative; and 3) the need to hire a professional manager with experience in the line(s) of business to be entered. If the larger group, or a significant portion thereof, remain supportive of the concept of forming a cooperative, then planning and feasibility analyses must proceed in order to clearly define the potential benefits, the financial commitments, and

the risks to be assumed by members. Only after the results of these analyses are available, can potential members realistically assess their willingness to commit to a cooperative organization.

The education, planning, and analysis phases will normally require talents and resources beyond those available to the local group. In the case of agriculture cooperative formation, there is typically a sponsoring organization to provide such assistance. Sponsors include established cooperatives, federations of cooperatives and local farm credit agency representatives.

Impediments to the Application of the Traditional Model

There appears to be a number of contrasts between the nature of fishing and farm businesses that may impede the formation of fishing cooperatives relative to their farm counterparts. First, farming is usually a full time occupation, whereas fishing often constitutes only one of two or more sources of annual income. Second, due to the mobility of fish stocks and the differential condition of stocks in different areas, fishing location is often unstable. Both of these factors make fishing businesses more geographically transient. Third, farmers are protected by standard property rights whereas fishermen often compete in a common property environment. Many observers believe that this difference generates (or attracts) an independent nature that is unique to the members of the fishing industry. It is reasonable to conclude that the more people take pride in and value their independence, the more difficult it would be to arouse such persons to a cooperative cause. (In some respects, of course, membership in a cooperative could be a means to greater independence. Many

fishing cooperatives were originally established to obtain economic freedom lost by a degree of dependence upon fishing companies as a sole market for product and the only available source of credit during the off season.) Fourth, the productivity of the basic resource, fish stocks, is more subject to uncontrollable natural fluctuation than is the basic land resource to break away from traditional institutional arrangements that have protected them during periods of cash-flow interruption; e.g., provision of credit and supplies by processors. An additional factor that is probably unique to Alaska's rural areas is that in these areas commercial fishing represents a seasonal cash economy activity for people who are predominantly oriented to a subsistence economy and lifestyle. Because cooperatives are typically full time, profit oriented businesses, there would appear to be justification for questioning their compatibility with a predominantly subsistence environment.

The above factors may become significant impediments to cooperative development when fishermen are faced with the required commitment of capital and patronage. These commitments are immediate and relatively certain, the potential benefits are long term and uncertain. Even the status quo, which may be viewed with general disdain, is relatively certain.

Establishing the Need for a Cooperative

There remains to be discussed one fundamental determinant of whether or not a movement to form a cooperative should reach fruition: Is there a basic need for a cooperative? Cooperatives usually perform one or more of the following four functions:

1) supply goods and/or services to members, referred to as a supply co-op; 2) bargain for price with fish buyers, referred to as a bargaining co-op; 3) market the catch of members, a marketing co-op; and 4) process the catch of members, a producer's co-op. If a co-op is to survive and progress, it must be able to perform one or more of these functions in a manner which provides significantly more economic benefits to members than are provided by existing businesses with whom members have been conducting business. Local economic concentration (i.e., the absence of intense competition) and/or inefficiency among suppliers that supply fishing businesses and among buyers that buy the catch of fishing businesses may be the leading inducement to the formation of fishermen's cooperatives. These market imperfections create an opportunity for a cooperative to better the economic condition of its members.

Each prospective member of a cooperative must weigh the opportunity for economic advantage (often to be delayed for an initial period) against the immediate commitments of capital and patronage. If, after a thorough evaluation a significant portion of the group remains enthusiastically supportive, there is a reasonable chance for success and a cooperative should be formed.

To reiterate, the required ingredients for success are that:

1. An economic need is apparent after a thorough analysis has been conducted.
2. There is strong group support as evidenced by a firm, legally binding commitment of capital and patronage.

In this case, by implication, any impediments to group

action that may exist are small in relation to the perceived potential benefits from joint action.

3. Accomplishing the first two steps would normally require the assistance of a sponsor.
4. Once the decision is made to form a cooperative, a professional, experienced manager must be obtained.
5. Debt capital must be available in sufficient amounts and on appropriate and competitive terms. This condition depends primarily on the ability of the new cooperative to satisfy conditions one, two and four.

While these conditions to success may appear to be obvious, their attainment in practice has often proven to be difficult. The central point is that it is unreasonable to expect financing to be made available by the market (condition five) in the absence or basically favorable economic and organizational conditions (conditions one through four). Likewise, any provision of, or participation in, financing by the state should be made only in light of these basic conditions, as they govern the degree of risk incurred and the chances for producing socially beneficial results.

Banks for Cooperatives

The Spokane Bank for Cooperatives and its counterpart in other districts, exist to provide a "dependable, continuing source of loan funds" to eligible agriculture and aquatic cooperatives. ("Banks for Cooperatives: How They Operate," 1973. Appendix C.) Eligibility conditions for fisheries cooperatives are found in Loan Policies and Guidelines for Fisheries Cooperatives, Resolu-

tion of the Board of Directors of the Spokane Bank for Cooperatives, which is attached to this report as part of Appendix No. D. Basically, they require bona fide cooperative organization, supportive membership, managerial and financial strength, broad discretionary powers vested in the Board of Directors, economically feasible activities that provide a reasonable prospect of loan repayment, and the ability to provide appropriate security.

Borrowing cooperatives, the patrons and owners of the Cooperative Banks for Cooperatives System, obtain equity ownership in their bank through stock purchase at the time of first loan (a minimum of one share at \$100 par value), additional shares in proportion to interest paid, and annual net savings as either a stock patronage refund or allocated surplus. ("Banks for Cooperatives: How They Operate.") The equity of inactive borrowers is returned on a revolving plan basis.

The Spokane Bank has not become a significant provider of fisheries loans in Alaska or its district, despite efforts to attract the patronage of fisheries cooperatives. It presently has only one such loan outstanding in its district, to a cooperative located in Alaska, and has had one other fisheries loan in Alaska. Mr. Alfred E. Van Winkle, senior vice president, and Mr. Larry K. Butterfield, assistant vice president, of the Credit Department of the Spokane Bank are continuing in their efforts to expand the bank's aquatic loan program. Nationwide, the situation is much the same; the Banks for Cooperatives System has only ten aquatic loans outstanding, totalling approximately \$500,000. (Correspondence from Mr. Noel G. Stocker, Farm Credit Administration.)

It would appear that Alaskan fisheries cooperatives have

reasonable access to the Spokane Bank for Cooperatives. It is not consistent with the operating procedures of the Bank to maintain local or branch offices. In 1977, the Bank maintained a loan portfolio of \$270 million with a staff of approximately two dozen. Operating expenses per \$100 of average loan volume outstanding ranged from \$.39 to \$.49 between 1973 and 1976, or from approximately .4% to .5% of loans outstanding. (Annual Report), 1975 and 1976. Spokane Bank for Cooperatives.)

Officials of the Bank have indicated a willingness to travel to Alaska to the degree necessary to service actual or potential customers and, in fact, an extensive tour was conducted this past summer. It is the author's opinion that the geographic distance between the Bank's location and potential Alaskan borrowers is not a major impediment to the Bank's ability to fulfill its function in the state. To the extent that Alaskan fisheries cooperatives suffer a locational disadvantage compared to other cooperatives in the Spokane district, it is one that could be overcome with frequent mailings and staff travel.

Problems of Access to BC Loan Programs

There are, nonetheless, significant problems of access to the Bank's lending programs that are unrelated to distance. (This discussion refers only to cooperatives having among their functions supply, marketing, or production, it excludes purely bargaining cooperatives on the presumption that the latter would have infrequent need to borrow.) They may be grouped into two categories. First, there are the existing fisheries cooperatives whose financial condition is unsound. Such cooperatives are not

eligible borrowers from the Bank or other market sources. The underlying difficulty can usually be traced to weak membership support, insufficient capitalization, poor management, misjudgment as to the basic economic need for a cooperative, or some combination of these. Note that there is a failure to satisfy one or more of the necessary conditions to a successful cooperative discussed earlier. In such cases, access to financing is not the basic problem, although in some circumstances, financial assistance may be justified assuming the more fundamental problems can be solved first. For the fundamental problems, educational and sponsorship assistance may be warranted, as the resulting expenditures would at least have some promise of yielding a positive social return.

The second category consists of groups of potential cooperative members who have interest in the Bank as a source of funds for the cooperative they hope to form. However, the Bank's lending programs are not available until after successful formation of the cooperative has taken place. To get to that point, or to decide firmly that to do so would be undesirable, educational and sponsorship assistance should be the highest priority form of public assistance, should the latter be seriously contemplated. Consideration of direct financial assistance to cooperatives should not be given until after the fundamental problems are solved and only then under restrictive conditions. Potential forms of state financial assistance and the conditions under which they should apply are discussed in the last section of this report.

The remaining group of cooperatives, those already formed

and in sound financial condition, appear to have unhampered access to the Spokane Bank's programs and other market sources. For this group of cooperatives no special programs appear to be necessary for normal borrowing activities. However, there may be areas of fisheries development, e.g., bottomfish, where the state may wish to augment the supply of capital to cooperatives engaging in the selected activity. Any provision of financial assistance by the state to encourage selected activities by cooperatives should be targated at established, financially sound cooperatives first, and only the most promising new cooperatives second (there are straight forward criteria for selecting these). This topic is addressed further in the final section.

Production Credit Associations

Production Credit Associations are the local lending agencies of the Federal Intermediate Credit Bank System. As discussed in the first section of this report, both PCAs and FICBs are cooperative financial institutions that are owned and controlled by their members. There are three significant differences between the BC System and the PCA/FICB system, in that: 1) the latter has a local lending agency, the PCA which in turn frequently has branch offices (there are 430 PCAs with 1,500 full time offices); 2) the clientel and membership of the PCA consists of individual farm and aquatic businesses rather than cooperative associations of such businesses, and the PCA is the clientel of the FICB; and 3) the BC System provides the full range of credit services, whereas the PCA program is limited to short and intermediate term credit (seven year limit with the possibility

of a three year extension).

Of the 30 PCAs within the Spokane District, five have aquatic loan programs. These PCAs hold a total of approximately \$20.5 million in aquatic loans as of April, 1977. On that same date, the Spokane District PCAs held 29.4% of the \$69.5 million PCA aquatic loans outstanding nationally and the 499 customers serviced represent 28% of the total number of aquatic borrowers (1,601). The average aquatic loan size in the Spokane District is \$45,600, slightly higher than the national average. As of December, 1976, the five PCAs engaged in aquatic lending had aquatic loans ranging from 3.64% to 69.33% of their total loans outstanding, and the absolute amount of loans outstanding ranged from \$1.5 million to \$8 million. For the entire district aquatic loans are approximately 2.5% of all loans made by PCAs within the district. Information supplied by the Farm Credit Administration and the Spokane FICB is attached as Appendix C. Special attention is called to the correspondence from Mr. William F. Barratt, president of FICB of Spokane.

The charters of each PCA provide for exclusive areas within which the PCA is the sole agriculture and aquatic lending agent of the district FICB. Alaska is presently within the assigned subdistrict of the Northwest Livestock PCA, Portland, Oregon. Mr. J.E. Herburger, manager, indicated that his association was anxious to expand its aquatic lending program in Alaska. At present, the PCA has a part time agent in Alaska, Mr. George Crowther who is a loan officer of the Alaska Rural Rehabilitation Corporation, located in Palmer. About 4% of Northwest Livestock PCA's total loan volume consist of aquatic loans. Loan terms for aquatic

borrowers are comparable to those of other borrowers of the Association. Borrowers are required to have a 40% equity position for new vessel loans and 50% for used vessels. The maximum term is seven years, which in some circumstances can be extended for three additional years.

The author discussed with Mr. Herburger the possibility of opening a branch office in Alaska. While the Association has considered this possibility, there is considerable uncertainty, under the policy that interest be the same to all borrowers, whether the volume of business would be sufficient to cover the costs. For example, with the indicated present operating spread of .4%, the present volume of Alaska business of approximately \$20 million volume of loans would provide \$80,000. The cost of an Alaska office is very roughly estimated to be between \$60,000 and \$100,000 depending on services offered.

It would appear that potential Alaska borrowers from the PCA/FICB System must contend with a significant locational disadvantage compared to potential aquatic borrowers from the other states in the Spokane District. This is suggested, for example, by the fact that Washington and Oregon each have two PCAs providing aquatic loan services. With the total recorded ex-vessel value of Alaska fish and shell fish harvest exceeding \$227 million in 1976, it would appear conceivable that Alaska could support a PCA or a branch office of the Northwest Livestock PCA. Using the average ratio of investment (vessel and gear) to gross earnings (from the 1973 survey, "Cost and Earnings of Alaskan Fishing Vessels - An Economic Survey", 1974, by the Alaska Commercial Fisheries Entry Commission) of 1.84 the

investment value of Alaska fish harvesting vessels and gear is \$418 million. With an assumed 15 year average capital turnover, approximately \$28 million would need refinancing each year. With an assumed 50% average equity, borrowing demand would be \$14 million annually. Assuming that, 1) the PCA could capture the percentage of the market shown; 2) that operating loan demand would be 10% of outstanding term loans; and 3) that in each year, 12.5% of term loans outstanding in the preceding year are rapid (based on assumed average loan life of eight years) total annual loan demand would accumulate as shown in Table 6.

The calculations in Table 6 are only indicative of the type of information that would be useful for evaluating the feasibility of an in-state PCA or PCA branch office; they do not constitute a formal forecast. Some of the assumptions may be off by an order of magnitude, e.g., the assumed 15 year average capital turnover, and other relevant factors have been excluded entirely, e.g., growth of fisheries and the corresponding entry of vessels and gear, technological change and capital upgrading. In any event, there would appear to be sufficient indication of opportunity for an in-state facility to warrant a formal analysis.

There are three factors other than distance that may limit the accessibility of PCA financing to Alaska fishing businesses by affecting their eligibility. First, the requirements for 40% to 50% equity on vessel loans may limit access. Second, many fishermen lack the business acumen to properly prepare financial statements and develop formal justification for a loan application. Physical accessibility to a PCA office or agent would have the effect of muting this disadvantage because such assistance

TABLE 6

TENTATIVE ESTIMATES OF ALASKA PCA
(OR FULL-SERVICE PCA BRANCH OFFICE) LOAN DEMAND*

(1) YEAR	(2) TERM LOAN MARKET SHARE		(3) REPAYMENT	(4) NET CUMULA- TIVE TERM LOANS OUT- STANDING	(5) OPERATING LOAN @ 10% OF NET TERM LOANS OUT- STANDING	(6) TOTAL PCA LOANS OUT- STANDING
	%	AMOUNT				
0	14	1.96	-	1.96	.20	2.16
1	16	2.24	- .25	3.95 $\times .125$ 3.95	.40	4.35
2	18	2.52	- .49	5.98 $\times .125$ 5.98	.60	6.58
3	20	2.80	- .75	8.03	.80	8.83
4	22	3.08	-1.00	10.11	1.01	11.12
5	24	3.36	-1.26	12.21	1.22	13.43
6	26	3.64	-1.53	14.32	1.43	15.75
7	28	3.92	-1.79	16.45	1.65	18.10
8	30	4.20	-2.06	18.59	1.86	20.45
9	32	4.48	-2.32	20.75	2.08	22.83
10	34	4.76	-2.59	22.92	2.29	25.21
11	36	5.04	-2.87	25.09	2.51	27.60
12	38	5.32	-3.14	27.27	2.73	30.00
13	40	5.60	-3.41	29.46	2.95	32.41
14	40	5.60	-3.68	31.38	3.14	34.52
15	40	5.60	-3.92	33.06	3.31	36.37
16	40	5.60	-4.13	34.53	3.45	37.98
17	40	5.60	-4.32	35.81	3.58	39.39
18	40	5.60	-4.48	36.93	3.69	40.62
19	40	5.60	-4.62	37.91	3.79	41.70
20	40	5.60	-4.74	38.77	3.88	42.65
etc.	etc.	etc.	etc.	etc.	etc.	etc.

(2) Market share (%) X 14 million = Amount of loans in each year. Initial year begins with approximate current market share (\$1.96 million ÷ \$14 million) based on the estimated fisheries loan demand of \$14 million. Market share is assumed to grow at 2% per year until it reaches 40%.

(3) Annual repayment = 12.5% of preceding year loans outstanding, based on assumed average loan life of 8 years.

(4) Net cumulative term loans outstanding (col. 4) = prior year loans outstanding (col. 4) + new loans (col. 2) - repayments (col. 3).

* All amounts in millions of 1976 dollars. Please note that this table is for illustrative purposes only; too many assumptions were required for it to be considered anything but tentative.

could be provided as part of the lending service. There are, of course, limits to the amount of assistance that may properly be provided by the person or persons who will be deciding on a loan application. Third, PCAs are restricted to a seven year lending term with some capability for providing one three year extension. Fishing vessel loans are conventionally financed for a longer period of up to 15 years. The PCA/FICB System is presently attempting to obtain congressional approval for 15 year terms for aquatic loans.

The state may wish to intervene to assist Alaskan fishermen to obtain greater access to the PCA/FICB System. The most promising vehicles for accomplishing this are discussed in the final section.

Other Sources of Financing

The Alaska Commercial Fishing Loan Act, AS 16.10.300 - AS 16.10.370, allows for loans by the Alaska Department of Commerce and Economic Development to individual commercial fishermen of up to \$150,000 for a term of up to 15 years at an interest rate not to exceed 7%. As of July, 1977, loans of \$13.5 million were outstanding. This loan program has potential for an interface with the aquatic loan programs of the Farm Credit System, through AS 16.10.310(a) 5. or through amendment, as discussed in the final section of this report.

The Alaska Small Business Loan Program provides loans to any resident (one year for individuals, corporate headquarters in Alaska for corporations) small businessman of up to \$300,000, but not to exceed 75% of the cost, at 8% interest for up to 15

years. This program had loans outstanding of \$14.3 million as of July, 1977, but only a small fraction of this amount has been to fish related businesses.

The National Marine Fishing Service offers a Fishing Vessel Obligation Guarantee program for up to 75% of the cost of new vessel construction, reconstruction, or reconditioning for vessels which admeasure five net tons or over. Fishing gear which remains integrally attached to the vessel during fishing operations is also eligible. This program has the effect of reducing the risk of default on a qualifying loan to zero. The preparation of loan documents, credit check, and feasibility analysis of the project are all performed by N.M.F.S. employees. The fishermen pay for the service through a payment of .75% charge on the outstanding balance; this pays the operating expenses, including loan-loss reserves. As of April, 1977, there were 16 users of the program in the Pacific Northwest (including Alaska). An aggregate loan amount of \$15.4 million is presently covered. This program cannot be used in Alaska's conditional fisheries, salmon and king crab.

Agreement in principle has been reached between the Farm Credit System and N.M.F.S. for the use of the vessel loan guarantee program with PCA loans. The barrier to this in the past has been the variable rate interest system on PCA loans. While this interface has not been activated at the time of this writing, there are indications that Northwest Livestock PCA would attempt to considerably expand its Alaska fisheries loans under the guarantee program.

The National Marine Fisheries Service also administers the

Capital Construction Fund which allows otherwise taxable income from a vessel(s) to be deferred from taxation by placing it into a special account for the purchase of a new vessel. Income so deposited is deducted from the fisherman's taxable income in the year in which it is earned. This income is recaptured for taxation by reducing the basis of the new vessel from which the depreciation deduction is calculated. In the meantime, the fishermen have, in effect, received an interest-free loan. As of September, 1977, \$31 million have been deposited (against objectives of \$120 million) and \$21 million have been used for qualified withdrawals. The CCF has 419 users in the Pacific Northwest, of which 125 are Alaskans.

The National Marine Fisheries Service has a loan program authorized by the Fish and Wildlife Act of 1956 as amended, to provide secured loans of up to \$40,000 at 8% interest for a maximum term of 14 years if the applicant has no alternative sources of financing. This Fisheries Loan Fund is not applicable in conditional fisheries except under restricted conditions. The Fund has been under moratorium since 1973 but there are still \$91,070 to be retired by Alaskan fishermen. N.M.F.S. is developing draft legislation that would, among other things, replace the Fisheries Loan Fund with a more comprehensive fisheries development financing package, the Fisheries Development Fund, that would be designed to complement national fisheries development objectives and the Fishery Conservation and Management Act of 1976.

The Community Economic Development Corporation (CEDC), a nonprofit corporation funded by a grant from the office of

Economic Development, Community Service Administration, has been active in lending to rural native fisheries development businesses (mostly cooperatives) and providing management and financial planning assistance. CEDC makes low interest loans to cooperatives that would not be considered credit worthy by other financial institutions including the Banks for Cooperatives, primarily because they lack one or more of the ingredients for success discussed above. This type of financial assistance runs counter to the hypothesis that solution of the more fundamental cooperative problems (membership commitment in the form of capital and patronage, a true economic need, experienced management) should precede, or at least be solvable by, financial assistance. The experiences of CEDC should be evaluated further as a test of this hypotheses and to aid the identification of fundamental problems (including financial) of rural development with which the state may be able to assist. Table 7 compares this and the other lending programs discussed in this section.

Policy Alternatives for
Enhancing Fishing Business Access to Credit

The preceding sections provide a survey of governmental assistance to the financing of fishing enterprises. There has been an attempt throughout to emphasize the secondary role of the financial input relative to the primary role of the several more basic ingredients to a viable economic enterprise. Indeed, credit worthiness is determined by the degree to which a firm and its projects embody the basic primary elements, and therefore the ease with which the firm can access financial sources. Programs that attempt to alter conditions of access are constrained

PROGRAMS

	Creditworthy	Non-creditworthy	Fishermen	Processors	Maximum Maturity	Interest Rate	Security	Downpayment	Specific Loan Limit	Loan Related Services
Spokane Bank for Cooperatives	X		Coops Bargain Supply market, process		none	money market + approx. 1%	yes	40%	none	yes
Northwest Livestock PCA	X		X		7 yrs	money market + approx. 1.5-2.5%	yes	40%	none	yes
Alaska Commercial Fisheries Loan Program	X		X		15 yrs	7%	yes	25%	\$150,000	no
Alaska Small Business Loan Program	X		X	X	15 yrs	8%	yes	25%	\$300,000	no
NMFS: Fisheries Loan Fund		X	X		14 yrs	8%	yes	25%	\$ 40,000	N.A.
NMFS: Fishing Vessel Obligation Guarantee	X		X	X	15 yrs	market	yes	25%	none	yes
NMFS: Capital Construction Fund	X		X	X	N.A.	N.A.	N.A.	N.A.	N.A.	yes
C.E.D.C.		X	Coops Process Market		none	7.5%	yes	up to 100%	none	yes

TABLE 7: COMPARISON OF FISHERIES FINANCIAL ASSISTANCE PROGRAMS

<u>PROGRAMS</u>	Creditworthy	Non-creditworthy	Fishermen	Processors	Maximum Maturity	Interest Rate	Security	Downpayment	Specific Loan Limit	Loan Related Services
Spokane Bank for Cooperatives	X				Coops Bargain Supply market, process none	money market + approx. 1%	yes	40%	none	yes
Northwest Livestock PCA	X		X		7 yrs	money market + approx. 1.5-2.5%	yes	40%	none	yes
Alaska Commercial Fisheries Loan Program	X		X		15 yrs	7%	yes	25%	\$150,000	no
Alaska Small Business Loan Program	X		X	X	15 yrs	8%	yes	25%	\$300,000	no
NMFS: Fisheries Loan Fund		X	X		14 yrs	8%	yes	25%	\$ 40,000	N.A.
NMFS: Fishing Vessel Obligation Guarantee	X		X	X	15 yrs	market	yes	25%	none	yes
NMFS: Capital Construction Fund	X		X	X	N.A.	N.A.	N.A.	N.A.	N.A.	yes
C.E.D.C.		X			Coops Process Market none	7.5%	yes	up to 100%	none	yes

TABLE 7: COMPARISON OF FISHERIES FINANCIAL ASSISTANCE PROGRAMS

to operate within the narrow bounds of this line of causation (basic ingredients to a viable enterprise → credit worthiness → financing). To reverse the process (financing → viable enterprise → credit worthiness) in the hope of eventually creating a viable enterprise capable of demonstrating credit worthiness through the normal market mechanisms is to revert to a subsidy program. There is a high probability that most of the dependents of such a program will have difficulty surviving in the market place when subsidies are withdrawn. (The CEDC Refunding Proposal is illuminating in this regard, pp. 69, 80-81.)

The foregoing suggests, therefore, that the goal of enhancing the long-run economic development of the fishing industry constrains the available policy alternatives for improving access to financing for fishing businesses to those which will assist viable enterprises and credit worthy projects. The reason is that only the latter will generate the sustainable employment, income, and tax revenue impacts that are the desired consequences of economic development.

The discussion of policy alternatives which follows is based on the presumption of the economic development goal. Other social goals, those which might suggest financial subsidy programs and have a high probability of producing only short-run non-sustainable benefits, would require policy alternatives other than those developed here.

The author is not charged with addressing the question of capital market imperfections in this report. Nevertheless, the recommendations which follow are based on the assumption that Alaska capital markets are imperfect to a degree which justifies

extra-market programs designed to affect credit availability to fishing businesses. As pointed out in Tussing's report, in the absence of market imperfections, such programs would merely displace private capital that would have otherwise been provided. The author believes that, in fact, capital markets are imperfect to a degree sufficient to warrant public programs which enhance capital access. The imperfections derive from high market concentration in the Alaska banking industry (which has the effect of increasing the price of credit, reducing the availability of loanable funds, and reducing the willingness to assume risks) and imperfect knowledge among potential investors about profitable opportunities for investment. The informational imperfection is particularly severe in relatively small scale investment industries, like fishing, where loan search and production costs are large in proportion to the amount of the loan, and where demanders of funds are relatively ill-equipped to seek out suppliers. In large scale investments, concentration and informational imperfections are muted by regional or even national competition among banks and other large financial firms that have large regional or national loan-production programs. Likewise, borrowers differ with regard to their ability to escape the local credit market; this ability being positively correlated to firm and project size.

In short, the degree to which Alaska capital markets are imperfect is different for firms and investment projects of different sizes. Small and intermediate scale businesses are, in the author's view, subjected to sufficiently imperfect capital markets to warrant concern. Although existence of the state loan programs appear to be relatively cumbersome and the benefits

rather unequally distributed, compared to the potential of the policy alternatives discussed below.

The Farm Credit System

The Farm Credit System has characteristics which make it the most outstanding prospect for policy attention. The member institutions are owned and controlled by users, they have an excellent record of performance, they have access to low-cost funds, and they are sufficiently flexible to respond to changing needs. As federally chartered institutions, they cannot, however, be expected to be directly responsive to policies of the State of Alaska. Thus, any attempts by the state to enhance the access of its fishermen (and farmers) to the System will have to work through the eligibility of its citizens, and any such efforts will need to be coordinated with the officials of these institutions.

The Financing of Economically Viable Cooperatives

Alaskan fishery cooperatives, both existing and those that could potentially be formed, appear to have two problems in accessing this credit and related services of the Spokane Bank for Cooperatives. The first problem area relates to the required membership equity investment, and the second to the new cooperative's need for sponsorship.

Required Membership Equity. Equity has the function of partially funding the cooperative and insuring membership commitment, including an incentive to patronize the business. For both of these reasons, the Bank requires a large equity commitment, usually 40%. The challenge for policymakers interested in stimulating cooperative development, then, is to devise a mechanism

for financing a part of the equity position of members without the latter losing their own financial commitment to the cooperative (and their incentive to patronize). Three methods are apparent:

1. For the state to purchase shares in a qualifying cooperative equal to, say, one-half the total capital required on the condition that, a) the Bank approves the proposed project for financing, and b) the cooperative commits to a plan for retiring the state's capital position over a specified (but variable) period of time. The latter commitment would necessarily be considered in the cash-flow projections of the cooperative and Bank. In the interim, of course, the state holds a risk-capital position in the cooperative second only to that of the membership.
2. For the state (or a PCA, as discussed below) to make loans, secured by a second lien, to qualifying members equal to, say, one-half of their individual equity commitments. These loans would need to be packaged for the membership group and final approval would be conditioned upon Bank approval of the cooperative's proposed project for financing. The repayment schedule for the loans to individual members would reflect the cash-flow requirements of the individual's business but they should probably not exceed five years, except for unusually large amounts.
3. Another method would be for the state to make a loan secured by a second lien, directly to the cooperative.

Compared to either of the other alternatives, this has the advantage of relative simplicity, but it would have the disadvantage of reducing the risk capital position of the cooperative. In substance, the difference between preferred equity and a loan secured by a second lien is not great; it may nevertheless affect the Bank's willingness to participate.

4. For the state to provide loan guarantees in order that the Bank would increase its share of the investment. The exact proportion is uncertain, although 75% has been mentioned.

The impact of the first three programs on the B.C., state and members is shown in Table 8 for various size projects. The second option has the advantage of strengthening the member's commitment to his cooperative but it would require relatively large loan service costs. (To encourage a PCA to make loans secured by a second lien, as an alternative to the state making such loans directly, the state could purchase non-voting preferred stock in the PCA equal to, say, one-half of the amount of such loans approved.) The fourth option is difficult to evaluate because it could either minimize or maximize both the state's risk position and administrative costs (relative to the other three options) depending on the structure and practice of the guarantee program negotiated between the Bank and the state.

Sponsorship Services. The second problem area is sponsorship. The fact that Alaska does not have a strong cooperative system (with strong individual co-ops, cooperative federations, and cooperative F.C.S. institutions) means that the assistance needed

TABLE 8

CAPITAL REQUIREMENTS

TOTAL COST OF PROJECT	B.C. FINANCING @ 60%	STATE OF ALASKA FINANCING @20% ¹	PRIVATE FINANCING @ 20%	INDIVIDUAL SHARE @ NUMBER OF MEMBERS			
				<u>10</u>	<u>25</u>	<u>50</u>	<u>100</u>
\$ 100,000	\$ 60,000	\$ 20,000	\$ 20,000	\$ 2,000	\$ 800	\$ 400	\$ 20
250,000	150,000	50,000	50,000	5,000	2,000	1,000	50
500,000	300,000	100,000	100,000	10,000	4,000	2,000	1,00
750,000	450,000	150,000	150,000	15,000	6,000	3,000	1,50
1,000,000	600,000	200,000	200,000	20,000	8,000	4,000	2,00
1,500,000	900,000	300,000	300,000	30,000	12,000	6,000	3,00
2,000,000	1,200,000	400,000	400,000	40,000	16,000	8,000	4,00
2,500,000	1,500,000	500,000	500,000	50,000	20,000	10,000	5,00

¹ State financing by loan (secured by second lien) or by equity position (conditioned upon an equity-retirement plan consistent with cooperative's projected cash flow).

to convert potential cooperatives into viable actual cooperatives is not readily at hand. The organizational functions often provided or arranged by sponsors - membership education, legal services (preparation of bylaws, obtaining corporate charter, etc.), feasibility analysis, assistance with initial working capital, assistance with management recruitment and accounting system, and assistance with arranging financing - must otherwise be performed by the group's members. These burdens appear to create a significant barrier to entry.

If cooperatives are assisted with obtaining access to the credit services of the Bank as discussed above, it is conceivable that the Bank would assist directly with overcoming some of these organizational barriers or assist in obtaining other sponsors. Alternatively, the state could create, or fund, a unit to provide these organizational services. In the process it would obtain first hand knowledge of the membership, the project, and the management of a newly formed cooperative that would assist the state with an assessment of the risks of providing financial assistance, whether equity, loan, or guarantee as discussed above.

Production Credit Association

There are several alternative ways for the state to encourage the Northwest Livestock PCA to provide a branch office in the state: 1) Provide a direct subsidy to cover that part of the cost of the facility not covered by loan production within the state; 2) Purchase preferred stock in Northwest Livestock PCA in the amount necessary to leverage sufficient loan production in Alaska to cover the cost of the facility; 3) Restructure the Alaska

Fisheries Loan Program to complement, rather than compete with, the Alaska PCA facility; 4) Provide loan guarantees that will encourage the predominately agriculture members of Northwest Livestock PCA to risk their invested capital in an unfamiliar industry located a great distance from their own business.

Of these alternatives, the second and third have the greatest appeal; the second could be set up on a temporary basis until the Alaska office was self-supporting, and the amount of stock held could be increased to encourage additional Alaska lending by leveraging through the money market as with other sources of PCA capital; and the third could enhance the ability of fishermen to access the PCA's services. The first alternative would require considerable monitoring. The rationale for the fourth alternative is unappealing inasmuch as Northwest Livestock PCA sought out and received the charter authority to lend in Alaska.

There is, of course, the alternative of encouraging to have formed a new PCA in Alaska. While this alternative apparently has appeal to many people in Alaska, the substantive advantages are difficult to discern. To the extent that Alaskans borrow from Northwest Livestock PCA, they will obtain voting stock and representation equivalent in absolute amount to that of their own PCA. Initially, at least, their relative influence would be greater in Alaska but this advantage should be weighed against the disadvantages: 1) initial organizational costs must be incurred, including the costs associated with the delay in obtaining a federal charter, due to the existence of a competitive charter; 2) the smaller scale of operations would generate higher relative costs and greater risks; and 3) there would be a loss of the advan-

tages inherent in a diversified multi-industry loan portfolio.

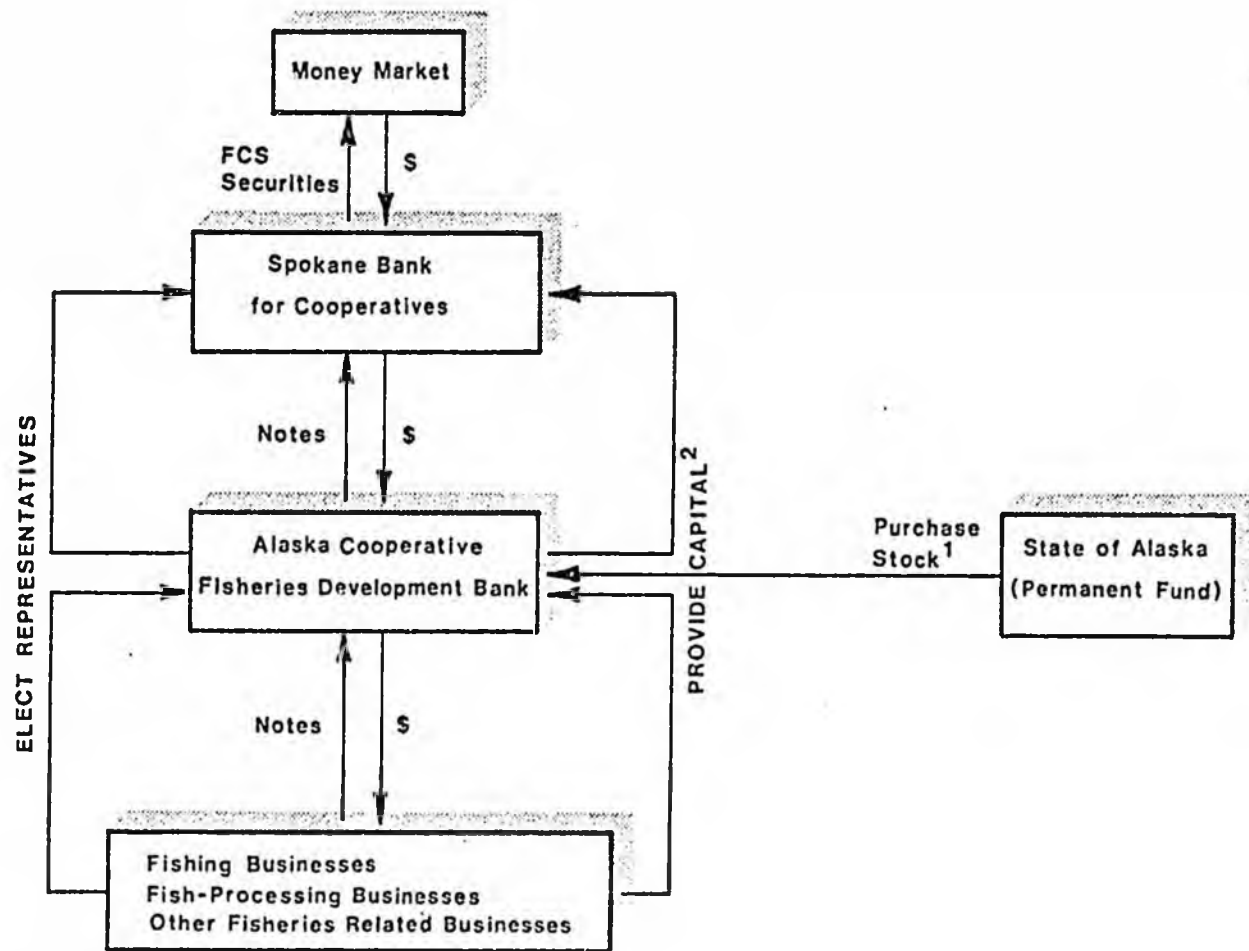
Aside from these organizational questions and the question of the physical location of the facility, there are two methods by which the state could enhance the access to PCA financing, wherever the PCA might be located and whatever its organization. First, because PCA loans usually require a 40% equity commitment, there is the same opportunity for the state to assume an equity or a loan position of the borrower, or provide guarantees to allow PCA to reduce the down payment required on a loan, as discussed above for cooperatives. Either the equity or the loan approach could be accomplished by restructuring the Alaska Commercial Fishing Loan Program. This suggestion would appear to be consistent with the intent of the legislature in AS 16.10.310(a) 5:

"...enter into agreements with private lending institutions, other state agencies or agencies of the federal government to carry out the purpose of sections 300-370 of this chapter."

A Cooperative Lending Institution

An alternative to an in-state PCA or PCA branch office would be for the state to sponsor and initially capitalize an independent cooperative lending institution (in effect a specialized fisheries development bank) which would leverage funds through the Spokane Bank for Cooperatives. The organizational structure of the institution would follow the model of the Farm Credit System institutions as shown in Figure 4 , and as discussed in the first section of this report. There are several advantages to this alternative:

1. Alaska patrons enjoy exclusive ownership and control,



1. Provided under long term retirement plan.

2. Acquired in proportion to patronage.

Figure 4: A Cooperative Fisheries Lending Institution

within the broad economic-development objectives as embodied in the Bank's charter from the State of Alaska.

2. It would allow access to the Spokane Bank's fund raising capabilities and financial services.
3. The link with the Farm Credit System would not provide the leveraging capability of an independent development bank (cooperative or otherwise), due to the relatively large down payments required to borrow from the system. However, a more than proportionate decrease in risk and the cost of funds results by funding through an established credit worthy group of institutions.
4. Loan maturities could be commensurate with requirements of the project. The present seven year limit for PCA loans is a significant disadvantage.
5. The Alaska Cooperative Fisheries Development Bank could service a broad range of the industry, such as fishing, fish processing, and fisheries-related service businesses; the PCA, for example, is limited to fishing vessel and gear loans.
6. The state's equity position could be increased to expand the bank's rate of loan production or to expand its scope. However, in the absence of a major change in the scope of its activities, a healthy institution should be expected to provide for its own capital growth internally, as well as to retire the state's position over an extended period of time.

The most significant factor affecting the feasibility of a cooperative development bank which would obtain its borrowed

capital through the Bank for Cooperatives is whether there could be sufficient leveraging to generate the earnings required to pay dividends, capitalize growth, and retire the state's equity position over the long run. Before this alternative could be seriously considered, a preliminary feasibility analysis, conducted jointly with the Spokane Bank for Cooperatives, would be required. The alternatives of a cooperative bank which obtains its borrowed capital through the permanent fund or the sale of securities on the market should also be evaluated.

Alternatives Not Related to the Farm Credit System

There are several alternatives for the Alaska Permanent Fund support of fishing industry financing; these lie outside the Farm Credit System. For this and other reasons discussed below, the author considers these alternatives to be less desirable.

N.M.F.S. Loan Guarantee Program

It would be possible for the Alaska Permanent Fund to acquire Alaska fishing loans guaranteed by the National Marine Fisheries Service directly from N.M.F.S. or by making a secondary market for these securities. While this alternative is superficially appealing, in that the state would not be as inclined to develop its own duplicative guarantee program, it would, in fact, be relatively unproductive. The reason is that notes which are 100% insured against default risk already have a ready market. The mechanics of the N.M.F.S. program are such that permanent fund purchases would only have an impact on the total amount of credit provided by arranging below market (subsidized)

interest rates for Alaskan borrowers. The stimulative effects of small interest subsidies are questionable. And, in any event, the underlying rationale for state financial assistance (capital market imperfections) would not be applicable to the segment of the market serviced by this program. That is, the guarantee program neutralizes the primary imperfections that exist on the buying side of the market, i.e., an overestimation of risks by the market due to lack of information, and the absence of incentive to obtain information due to the disproportionately high cost for small and medium size loans. An additional limitation of the N.M.F.S. program is that the physical location of this service is in Seattle.

A Comprehensive Alaska Fisheries Loan Guarantee Program

Alaska could provide a loan guarantee program. In order to keep risks within an acceptable range the state would have to provide complete loan production services, including independent feasibility studies. The cost of such a program could be borne by the state, the borrowers, or shared between them. This service would be highly duplicative of the N.M.F.S. service, but it would have the advantage of providing an in-state facility. An additional consideration is that a full guarantee by the State of Alaska is not likely to provide the degree of marketability and interest advantage offered by federal guarantees.

Funds Placement with Alaskan Financial Institutions

A final policy alternative for stimulating the financing of fishing businesses would be to place funds with Alaskan financial institutions conditioned upon their being lent to fishing businesses.

The effect of such a program on the total volume of fisheries loans made by the industry would be difficult to predict. Because of the displacement effect (the releasing of funds that would have been devoted to fisheries loans in the absence of a state placement program) the primary impact could well be to enhance bank profitability rather than fisheries loans. To avoid the displacement effect would require a degree of policing of individual bank accounting data that is unrealistic; and even extensive policing may not prevent the displacement from taking place.

An alternative to funds placement would be for the state to guarantee the fishing loans produced by the industry, in full or partially. Some risk sharing by the financial institution (a partial guarantee) would be necessary to maintain loan quality and hold the state's risks to acceptable levels. A review of the performance records of partial guarantee programs would be desirable before opting for this alternative because it, too, contains some potential for a displacement effect (the state guaranteeing loans that would have been made in the absence of guarantees).

An alternative to either of the above programs would be for the state to make a secondary market in fisheries loans made by Alaskan financial institutions. If the arrangement was such that the default risk on the purchased notes passes to the ultimate holder (the state), the same problem of maintaining the quality of the loan portfolio would exist as with a full or substantial guarantee program, unless the state also maintained a loan quality monitoring program. Again, the incremental effect on fisheries

loan creation is difficult to predict.

Stimulating Target Activities

Some areas of fisheries development financing are likely to be of higher priority than others. Development by domestic industry (particular Alaska residents) of Alaska's bottomfish resources is the most prominent example at present. The question arises as to the ability of the alternative institutions and programs discussed above to impact target fisheries.

It is important that the state maintain consistency in its policies toward fisheries development. In the case of bottomfish, for example, policies would be working at cross purposes if financial policy encourages the financing of floating processing vessels because, say, shore plant facilities are ineligible under existing financial aid programs while at the same time other dimensions of policy (e.g., preferential licensing) encourage shore plant development. This scenario suggests an important principle for structuring financial assistance policy: because the market is the most efficient mechanism for determining the optimum methods of production, the financial dimension of the state's fisheries development policy should be neutral with respect to gear types, vessels processing technology and marketing. The economic incentives of applicant borrowers and the process of evaluating loan applications will, for the most part, weed out the inferior methods.

A corollary to a neutral financial policy is that the state is then free to establish other dimensions of policy either as neutral or preferential policy (as long as the other dimensions

are consistent with each other). However, it is important to recognize that a preferential policy is likely to impose significant economic costs unless it is consistent with the choice that would have been made by the market under a policy of neutrality.

These considerations suggest that a financial policy can and perhaps should be preferential with respect to target fisheries, depending upon the economic objectives and consequences of a particular preference, but that the temptation to establish more specific preferences should be avoided. The challenge for financial policy, then, is to develop financing programs that attract the most efficient combinations of human and nonhuman resources and production techniques into the target fishery; that is, to attract the specific combinations selected by market forces.

The financial institutions or programs through which the principle of market neutrality can be effectively implemented are only those that have a broad based clientel. Those institutions having narrow clientel and functions, e.g , a PCA, cannot significantly impact the economic development of a target fishery unless their areas of lending happen to be among those selected by market forces. Of the institutional/program options discussed in this report, the Alaska Cooperative Fisheries Development Bank and commercial banks would have the greatest potential impact on the development of a target fishery due to their broad based lending authority. Between these two, the programs of the Alaska Cooperative Fisheries Development Bank would be the most amenable to policy manipulation. For example, the Bank could be chartered to provide low margin financing or to assume an equity position in investment projects in target fisheries. Either the low

margin loan or equity approach would have the ability to significantly impact the availability of funds in target fisheries. The Bank's rate structure and equity position would, however, need to reflect the proportion of such relatively risky assets in the Bank's total asset structure.

The Need for Further Research

The resources available to perform this study were adequate for identifying the most promising alternative methods for providing financial assistance to viable fishing and fishing related businesses. The most appealing of these alternatives, or others which they may suggest, should be subjected to closer scrutiny through preliminary feasibility analyses. I am confident that the state will find the officials of the Farm Credit System institutions to be receptive to more detailed investigations. Without exception, these officials expressed a willingness to provide further assistance and a desire to be kept informed.

The next phase, then, should be to conduct research which will narrow the field and bring into sharper focus the differences (advantages and disadvantages) among those alternatives remaining in contention. Specific recommendations include:

1. A comprehensive survey of fishermen (and perhaps processor) demand for capital for the past three years should be conducted. Thought should be given to making receipt of the vessel license conditional upon participation in the survey. This information would be used, of course, for evaluating alternative mechanisms for assisting fishing business access to borrowed funds.

2. Feasibility studies of those alternatives discussed in the preceding section on which the Legislature desires additional information. These studies should encompass both the legal-institutional and economic dimensions of feasibility. Of the specific alternatives discussed above, I would recommend feasibility studies of a cooperative fisheries development bank, an Alaskan office of the Northwest Livestock PCA, and a sponsorship-technical assistance unit for cooperatives and perhaps other fisheries businesses.
3. A detailed evaluation of loan guarantee programs, particularly the N.M.F.S. program, to determine the need for, and the risks and probable impact of, an Alaska loan guarantee program.
4. The formation of a small committee of commercial bankers to represent the Alaskan banking industry should be considered. This committee, along with analysis representing the Legislature, should jointly explore and evaluate the feasibility of alternatives which utilize the banking industry to stimulate the availability of credit to fishing businesses. Topics should include: 1) the possibility of using individual bank accounting data (historical and current) to monitor and prevent the displacement effect; and 2) risk-sharing techniques that contain adequate incentives for accomplishing fisheries finance and other development finance objectives at reasonable cost and risk to the state. For this interactive process to be

meaningful, there must exist, or be made to exist, among members of the industry an expectation that the industry's access to the Permanent Fund is conditional upon there being demonstrable public benefits. If this in fact is not the case, then the incentive for meaningful participation is absent and the interactive process would be of little benefit. (This suggestion should not be interpreted as constituting a disagreement with Belden Daniels' recommendation for state-industry interaction with respect to making the regulatory process more efficient (pp. 35-37).

Community Resource Considerations

The following subsection has been taken from Kathy Hathaway's Report to this Committee.

Community suitability as a location for on-shore bottomfish processing facilities can be defined from both the viewpoint of the fisherman and the processor. Both desire certain services and community characteristics which play a part in attracting industry to a locality.

Especially in an underutilized fishery such as bottomfish presently are in Alaska, the fisherman may have little choice in which community he will deliver his catch. But while support services may not be necessary to attract a fisherman to a community, they assist a town in handling increased traffic in an orderly manner. Important support services for a transient fishing fleet range from the availability of boat

maintenance facilities and rapid delivery of replacements for damaged gear from the nearest major supply center, to the presence of such personal services as showers, laundry facilities and entertainment. It is assumed that many of these support services would appear as demand increases, however their availability needs to be considered in the planning process.

Industry's community resource requirements differ somewhat from those of fishermen. Although they have an interest in a community's personal services, processors' interests range from the capacity of local utilities to the available local labor pool, from docking facilities to entertainment.

Table 9 is a table of community utility requirements of processors before the start-up of a bottomfish processing plant. These requirements are based on a shore-based fish processing facility receiving about 30 million pounds of round-weight fish per year, and operating for approximately 230 working days with two eight-hour shifts and three lines. Such a plant would produce approximately ten million pounds of frozen fish meat per year. Because there is little definite data available on processing utility requirements for bottomfish in Alaska, the figures cited in Table 8 are approximate.

It is likely that the first on-shore plants to begin processing bottomfish in Alaska will be located in communities which already have a well-rooted fish processing industry, which have a fairly large permanent population, and which are reasonably near bottomfish grounds. However, other pertinent aspects are the effects of fish migration on bottomfish

grounds, what species are present on the grounds, and the age of the fish present. Because only about three or four Alaskan communities are obvious near-term locations for shore-based bottomfish processing plants, full utilization of the bottomfish resources available in Alaskan waters demands that processing plants be operating in other locations in the near future.

It is possible to divide Alaskan coastal communities into three classifications of suitability for development of on-shore bottomfish processing plants. The first classification would be of prime immediate locations for plants: Petersburg, Cordova, Kodiak and Dutch Harbor. PFI (Icicle Seafoods) has already begun processing bottomfish at its plant in Petersburg, and it appears that NEFCO (New England Fish Company) will begin operations in Kodiak in the near future.

Although these first locations would give coverage from Southeast to the Aleutians, it would be sparse, especially considering how quickly many species of bottomfish lose their marketable qualities.

	Plant	Million pounds/ bottomfish
Electricity	700,000 KWH	23,333 KWH
Water	3 million gals. fresh	400,000 gals. fresh
Labor	46 workers/shift	5,642 man/hours

Table 9 - Processors' Community Utility Requirements

The second classification would be of locations which seem to have real possibilities for development with the next ten to 15 years. This includes communities ranging from Kuskokwim Bay to the Dixon Entrance, which have between approximately 65-100 people available for permanent long-term employment (or are able to accommodate that many new residents) and which have at least some of the facilities and resources which industry considers necessary in a community before the advent of a new fish processing plant.

Many communities which fit into this second classification appear to be ripe for development and have the potential for cooperative processing ventures without industry involvement.

The third classification would be of communities which which for reasons of location or lack of community resources seem unlikely near-term locations for shore-based bottomfish processing plants, although there are long-term possibilities. This includes fairly large communities on the Seward Peninsula and farther north where there has not been a full resource assessment to find out how many and what kinds of fish are there. Another problem with northern locations is the short period of ice-free waters. Although bottomfish are being caught by subsistence ice fishermen, it does not seem economically feasible at this time for commercial bottomfishermen to deliver to an on-shore processor north of Kuskokwim Bay.

This third classification presently includes the Pribilof Islands, although indications are that the Pribilofs are in an extremely attractive location for developing a bottomfish fishery. It appears that the recommendation of

the North Pacific Fisheries Management Council that the Corps of Engineers finish dredging operations in the St. Paul Harbor will enable the Pribilofs to accommodate anticipated growth in its commercial fishing fleet and make it an attractive location for fisheries expansion.

The second classification of communities which have near-term possibilities for industrial development is of immediate interest to this Committee. A table comparing Alaskan coastal communities which fit into this second classification is in Appendix D. This table is a comparison of community resources to be considered before further community development is planned. It shows both those resources of primarily industrial interest and those resources of human services.

Conclusions

The development requirements for an Alaskan bottomfish industry are broad, ranging from the need for new technology and a broader base of expertise, to new and expanded sources of financing, to the need for getting the growth of community's infrastructure to the industrial growth within a community. It appears that Alaska does not presently meet many of the development requirements set forth in the past five subsections. This Committee has drafted legislation designed to meet some of the deficiencies in the financing available to fishermen in Alaska. It is the conclusion of this Committee that other legislation which has been included in Chapter V will act to encourage a developing bottomfish industry also. There are some development requirements which need further study before any State action

would be desirable. These include the need for new technology and expertise and for further study of how best a community can meet a growing industry's infrastructural needs.

CHAPTER IV

STATE ALTERNATIVES AND POTENTIAL

As the bottomfish industry develops in Alaska, the State is faced with two immediate choices: The encouragement of either of shore-based or floating processors. From a practical standpoint, Alaska's position on this matter will depend largely on whether the North Pacific Fisheries Management Council will recommend joint domestic to foreign ventures for floating bottomfish processing facilities. The divergent possibility of off-shore or on-shore bottomfish processing plants requires different sorts of State planning, depending upon whether the greatest initial impact will be felt by the community, the local fisherman or the State. Although the issue revolves around the social, economic and political desirability of each choice, in Alaska it is presently complicated by the interests of foreign fishing nations, by the maneuvers among countries for a greater share of the international bottomfish market, by the uncertainty as to whether the U.S. can be competitive within this market, and in the long term, whether there will be conflicts between an expanding fishing and/or processing industry with future OCS activities. Another complication is the question of what real benefits accrue to Alaska with foreign vs. domestic processors, Alaska vs. outside processors.

THE STATE ROLE

The following subsection has been taken from John Williams' memo of 9-17-1977 to Rep. Osterback.

The last category of questions we presented to the banking industry and processing executives dealt with their perception to the State role in the development of the bottomfishery. The industry, as a rule, did not perceive any real capital shortages, except in the instance where there would be a need to construct new floating processors (as opposed to reworking an existing hull). The costs for such a venture were projected initially at six million dollars. The largest and most active banks in fishing loans seem to feel that none of the companies which had expressed interest in entering the new fishery were sufficiently financed to assume the risk of making the investment necessary in a full scale, new operation.

Pan Alaska, a subsidiary of Castle and Cooke and a major force in the Alaska industry, indicated an interest in pursuing the possibility of joint venturing with other processors and the state and federal governments in the construction and operation of a bottomfish processing facility. When the prospect of such a venture was presented to other processors, the responses ranged from lukewarm to absolutely no interest. One company felt that "socialism" had no place in the Alaska fishing industry. Others expressed concern that the state would be regulating an industry that it also had a vested interest in. We anticipate hearing more from those companies which expressed some interest.

With respect to State loan policy, the processors again

did not give a single category recommendation. One company expressed great interest in having the State design a subsidized loan program specifically to service fishing boat owners in reworking their vessels for the groundfishery. Another did not want the State involved in any way in boat loans. A consideration here may be the maintenance of raw product supply by financing fishing vessel construction (and fishermen) on a demand note or similar basis.

It was suggested by Dr. Fred Smith of Oregon State University that as between loans or tax incentives, loans had two inherent advantages: 1) they supplied money at the front end of the operation, thus assisting cash flow considerations, and 2) the State could gather more information about the structure of the industry and financial transactions if they offered loans as opposed to tax incentives.

When queried about State fisheries tax policy, one company specifically suggested incentives based on an infant industry status for bottomfish development. Most of the other firms suggested that it was a decision that the State had to make based upon all criteria and not just industry attitude. They did advocate, of course, a structure that would not discourage entry into the new fishery.

The only other suggestion we received about the State role concerned State financing of various demonstration-type projects. Suggestions included the financing of trips abroad for Alaskan fishermen to view groundfish operations in the major world groundfisheries, or financing the expense of bringing industrial expertise from other parts of the world to consult with members of the Alaskan industry.

Floating Vs. Shore-Based Processing

The following subsection has been taken from John Williams' memo of 9-17-1977 to Rep. Osterback

The historic industrial organization used by the foreign industry in harvesting Alaska groundfish has involved fleets of catcher boats supplying floating mothership processors. Gear technology has been developed to the point where the crew of a catcher boat can detach the cod end of a trawl without bringing it on board, tie it off and either buoy-mark it or tow it to the mothership. A new cod end is then attached onto the trawl and the next drag begins. The whole procedure maximizes the available fishing time for the catcher boat.

Within the established Alaska industry, this organization is not common (the roe herring fishery works in a similar fashion). Even for "floating" processors, the catcher vessels typically carry their catch to a shore side location, where the processor is secured. Floating processors locate at shore-side moorages so that, under Alaska law, they are considered shore plants (and are thus subject to a one percent rather than a four percent raw fish tax). For the shellfish fleet, this requires one or two days' running time both to and from the fishing grounds, one to two days to unload the catch, and, in the case of bottomfish, will require additional lost fishing time to bring the catch on board for sorting and icing (icing could be supplanted with refrigerated sea water systems at an expense of approximately \$60,000).

Mr. Sig Jaeger, manager of the North Pacific Fishing Vessel Owners Association, has prepared an analysis conducted by several

members of his association with the assistance of outside experts. ("Presentation to the North Pacific Fisheries Management Council on the Subject of Foreign Joint Ventures," Sig Jaeger, August 5-6, 1977.) He has projected the earning capacity of a given vessel which in "case one" is delivering bottomfish to a shore-based plant, and in "case two" to a high seas floating processor. His calculation found that a vessel making deliveries to an on-shore or shore-side plant could fish 108 days per year, compared to 180 days for the same vessel making deliveries to a high seas processor. The gross annual earnings were projected to be \$283,097 for "case one", and \$480,161 for "case two". The individual crew share (7% of gross) was \$12,084, and \$27,636, respectively; the net boat share \$70,119 and \$222,511; the balance for profit, depreciation, taxes, etc., was \$7,380 and \$148,011.

Even with the advantage of high seas versus shore-side delivery, it is nevertheless more profitable for a vessel of the type used in the above comparison to deliver shellfish to shore than bottomfish on the high seas. Mr. Jaeger states:

"The example vessels used in the comparison have an earning potential from crab fishing of nearly double the pollock earnings potential of delivering to the floating (high seas) processor, and in a seven to eight month period rather than 10 months trawling for pollock. Moreover, that crab earning potential is 'now', without another \$250,000 invested in trawl gear and winches."

In a separate report, Mr. Jaeger suggests that if a fishing vessel could save 15 minutes on each tow by not bringing the load on board but rather deliver it directly to a high seas processor, the potential increased gross earnings from additional fishing time could amount to \$80,000 annually. (Fifteen minutes

saved per tow (6 tows per day) for 180 fishing days equals 270 towing hours. This represents an additional catch potential of 660 metric tons at a catch rate of 22 metric tons per day (9 towing hours per day).

Though the use of high seas processors would obviously be advantageous to the fishing fleet operators, they present some inherent problems for the processor. These would include:

- 1) the crew accommodations, which would be far more expensive under American labor regulations than experienced by foreign operations,
- 2) operating conditions, which would necessarily be much less pleasant because of weather, seas, and confinement,
- 3) Food and Drug Administration regulations, which require more sanitary operations than generally experienced on foreign vessels, which means more expense in line operations, water quality, sewage treatment, etc., and
- 4) general supply problems of provisions, packaging, and parts and equipment in case of breakdowns.

Additionally, the capital investment in all presently established fisheries is mostly in shore-based operations. For those floating processors which are in service today, few have been designed with bottomfish in mind, and the space restrictions and overhaul costs would generally discourage reworking the vessels. Conversely, many shore-side plants have enough existing space to accommodate bottomfish processing lines. Several new plants, especially a number in Kodiak and westward, were built with floor space available for future bottomfish operations.

There is reason to anticipate that as the American bottomfish industry develops, it will do so within a scenario which

could be considered a hybrid of the typical domestic shore-side operations and foreign high seas fleet operations. Considering 1) the diseconomies presented by Sig Jaeger's paper, 2) the adamant feeling of many members of the industry that initial processing on board of fishing vessels is unrealistic for Alaskan fishing vessel operations, and 3) the capital investment required to supply a number of new floating processors, we believe an alternative development path is likely.

Bottomfish operations could conceivably develop in a manner very similar to those of the Alaska salmon fishery in which shore-based processors supply a tender or tenders which directly receive detachable cod ends from catcher vessels, sort and initially process the catch (icing and evisceration to maintain quality), and deliver the supply to a shore-side plant for further processing. (High seas evisceration will mitigate the on-shore waste treatment requirements presently being instituted by the Environmental Protection Agency.) We have been informed by one processor that they have already ordered the construction of a vessel which could serve such a purpose.

This scenario is also consistent with our expectation of smaller, lower overhead vessels increasingly acting as catcher vessels. The hold capacity of a small vessel would not be considered a limiting factor if the fishing vessels are not required to handle the catch on board.

As an added note, we were reminded during our interviews that the future value of high seas motherships now owned by countries who have developed distant water fleets is uncertain. It was suggested to us that these floating processors could be

sold to American companies and utilized as domestic floating processors, so long as they were not classified as vessels (it was suggested to us that removal of the screw would likely alleviate any statutory problems about their utilization).

As noted above, present State fisheries taxation policy discriminates between high seas and shore-side processors. The historical aspects of this policy relate to the initial development of floating processors. They were considered to be "Outside" interests who offered fewer benefits to the State and its citizens. The State thus implemented a 4% raw fish tax for floating processors, as opposed to a 1% raw fish tax for land-based cold storage operations.

A shore-based plant is described as one which does not change location for one calendar year. As a consequence, most processors which might be considered "floaters", are, under the law, shore-based operations (AS 43.75.060(3)). Recently constructed "floating" processors have been brought to Alaska and typically stationed in one location for an extended period of time. All Alaska Seafoods, Inc., a wholly owned Alaskan corporation, operates a mobile floating processor. The catcher/processor operation headed by Maggie Ness is a wholly outside owned interest. Other "floaters" are typically processing plants owned by larger companies who have plants in several locations in Alaska.

Most floating processors (both high seas and shore-side) would appear to employ predominately outside labor, both with respect to processing line crews and vessel crews. Since the vessels are typically equipped in a Northwest location (Seattle)

and return to the Northwest for periodic overhaul, and the usual location of these vessels is in sparsely populated areas of the State, the labor source drawn upon for manning the vessels is usually the Seattle area. We do not know the actual employment data for on-shore versus floating processors. We will attempt to answer that question with an investigation of Department of Revenue and/or Department of Labor data.

A floating processor operating on the high seas presents two additional problems to the State. The first relates to the State's taxation jurisdiction, the second to the management of the resource.

The State Supreme Court has found that the State's interest in the management of fish stocks over their entire range (inside and outside of the three mile limit) is sufficiently strong to warrant the application of fisheries management regulations over the entire area covered by a stock of fish in the absence of other jurisdiction. With the enactment of the Fisheries Conservation and Management Act, there is now "other jurisdiction" present to regulate those stocks which are predominately outside of three miles.

However, the taxation jurisdiction of the State is not similarly expanded to areas more distant than three miles. The general application of tax law, as implied from Alaska v. Arctic Maid et al, (366 U.S. 199-206 United States Court of Appeals for the Ninth Circuit.) is that fish caught within three miles of mean high water are always taxable under State law, whether delivered to a shore-side processing plant or floating processors anchored outside of three miles. Any fish delivered

to a plant within three miles of shore, whether caught inside or outside of three miles is subject to the raw fish tax.

The question of the application of Alaska's income tax to operation within and outside of three miles is being litigated at this time under Sjong v. State of Alaska. The case is presently before the Superior Court and is expected (because it is a test case) to go to the State Supreme Court. The administrative ruling which has been delivered on the case (by the Department of Revenue) has suggested that a fisherman is liable for income tax on all income earned from catching fish within three miles. For catches outside of three miles, a fisherman is liable for the percentage of time spent in port in Alaska divided by the time spent in all ports while engaged in business relative to the particular catch in question. Thus, the administrative ruling suggests an apportionment of taxable income on a basis similar to that used to assess taxes from interstate transportation business. We will be happy to report to you the results of the Superior Court ruling. The trial is set for approximately September 31.

The utilization of floating processors would also exacerbate the biological management of fisheries stocks. Enforcement of fishing regulations and monitoring of catch levels for those fishermen who make deliveries to processors operating on the high seas will be much more difficult than the performance of those same functions at fishing ports. It would appear to be reasonable to expect a processor operating in such a fashion to mandatorily accept the additional cost of maintaining a

regulatory agent on board his processor, since that is the only obvious means to secure adequate management control.

Incentive Programs

The following subsection has been taken from John Williams' memo of 9-17-1977 to Rep. Osterback.

Our investigation into incentive programs has only been of a preliminary nature. The Department of Resource Economics at the University of Rhode Island (URI) has probably looked at this issue on an international basis more than any other agency. We talked with Dr. Andreus Holmsen at URI for the better part of one day. He suggested that an international review of fisheries incentive offerings in other countries is not readily available and would be very difficult to obtain because of the difficult task of construing what are incentives within the fisheries policies of the various fishing nations.

URI has specifically investigated the structure of subsidy programs in some nations, most recently Canada, for which a paper has been prepared by Dr. Virgil Norton on this subject. In addition, Dr. Holmsen has published an article relating to the economic activities of trawlers in the North Atlantic, which includes specific references to subsidies and transfer payments made by the respective governments.

We did inquire as to the subsidies which are offered by east and west coast states to the resident fishing industry. Although we talked with people who were familiar with Washington, Oregon, California, Massachusetts and Virginia, the only state which makes special consideration for their resident fishing industry appears to be Rhode Island. Rhode Island exempts

fishing activity from property and sales tax liability. Additionally, that state owns and maintains most wharves on a subsidized basis. We found no evidence of subsidized loan programs, tax incentives, or any other means which is an established subsidy in any of the other states.

Restrictions

The following subsection was taken from Ken Vassar's memo of 9-7-1977 to Rep. Osterback.

Where Congress has not enacted supervening or conflicting legislation in respect to the subject matter, the states have the power to regulate transactions of local concern within their borders even though this may affect or regulate interstate commerce subject, however, to certain limitations. State regulations that discriminate against interstate commerce, i.e., that single out interstate commerce for regulation, or that impose more burdensome regulation on interstate commerce than on comparable local commerce, are almost always held invalid as an invasion of the congressional commerce power. Under this clause, a state statute that restricts the export of goods from within the state in order to benefit local industries and consumers has been held unconstitutional. (Toomer v. Witsell, 334 U.S. 384 (1948) -- state statute required that shrimp caught within the state not be shipped interstate unless packaged within the state.)

The test currently favored by the United States Supreme Court in determining the validity of non-discriminatory state regulation of interstate commerce is the "balancing test". Under this approach, the court in each case will determine the

detriment to the national interest (i.e., the burden on interstate commerce) imposed by the state regulation, in terms of difficulty and cost of compliance, inefficiency involved, etc. This is weighed against the strength and merit of the state interest in the regulations. The court then decides whether the state regulation imposes an unreasonable burden on interstate commerce.

Thus, a state statute prohibiting the sale of milk within the state unless the seller paid the dairy farmer a statutorily-imposed minimum price was held invalid under the commerce clause when applied to milk produced outside the state. The statute burdened interstate commerce by eliminating the competitive advantage of interstate producers; the state purpose was to benefit local business by raising prices received. (Baldwin v. Seelig, 294 U.S. 511 (1935)). Also, a state statute requiring growers of high quality fruit to pack it within the state rather than at packing plants outside the state imposed an undue burden on interstate commerce. A state requirement that business operations must be performed within the state when they could more efficiently be performed elsewhere is almost per se an undue burden; and the state's interest (having the grower's superior fruit identified as coming from within the state, in order to enhance the reputation of all growers within the state which is an economic interest) was "minimal at best." (Pike v. Bruce Church, Inc., 397 U.S. 137 (1970)).

Conclusion

Alaskan bottomfish are a domestically untapped resource which combines the potential for outshining the oil returns with the ongoing advantage of being renewable. Besides offering the potential advantage of an expanding economy and tax base for Alaska and the communities directly affected by development, bottomfish utilization offers the possibility of year round, stable employment to residents of Alaska's coastal communities and new opportunities for the State's fishermen. It is this Committee's conclusion that the benefits to the State of bottomfish development far outweigh the difficulties inherent in overcoming the obstacles to orderly growth.

The following chapter, "Legislation," includes seven pieces of legislation which should eliminate some of the existing obstacles to Alaskan bottomfish development as identified in this report.

The greatest existing obstacle is the lack of definitive information on the parts of the State, industry, and the Alaskan fisherman. Five of the bills in the following chapter will address this lack of information. The first bill is designed to show fishermen if it is possible for them to make money bottomfishing and how to go about it. The second establishes an Alaska State Office in Copenhagen. An important function of this office would be to serve as a clearing house for fisheries information. The third bill establishes an Underutilized Fish Species Board, designed along the lines of the King Crab Marketing Board. This bill will ensure that there is a mechanism designed to promote Alaskan bottomfish development on an ongoing basis.

The fourth bill will create an underutilized fisheries task force which will serve the same purpose as the Underutilized Fish Species Board until that board is established. The fifth bill makes an appropriation to survey fishermen, processors and agricultural interests to determine the suitability of a Production Credit Association as an alternative form of financing.

Although this Committee has been looking specifically at bottomfish, it has been necessary to consider some broad problems of Alaska's fisheries taxation law which may have some effect on bottomfish utilization. The sixth bill in the following chapter will appropriate funds for a study of the fisheries taxation law which is still based on a tax system established in the territorial days.

The seventh bill revises the Commercial Fishing Loan Act to allow a partnership, corporation, or joint venture to be eligible for a fishing loan and to eliminate the first lien requirement.

CHAPTER V

Legislation

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Department of Fish and Game to contract for underutilized fishery resource fishing and processing; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of \$360,000 is appropriated from the general fund to the Department of Fish and Game for the purpose of contracting with the owners of a vessel of the 200-foot class capable of catching, processing, and holding ground fish to conduct fishing and processing operations for underutilized fishery resources, as determined by the commissioner of fish and game, for six months in the Bering Sea or along the Aleutian Islands.

* Sec. 2. The unexpended and unobligated portion of this appropriation lapses into the general fund June 30, 1978.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(e).

BILL # 2

1 IN THE HOUSE

BY OSTERBACK

2

HOUSE BILL NO.

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

TENTH LEGISLATURE - SECOND SESSION

5

A BILL

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For an Act entitled: "An Act providing for the establishment of an Alaska
7 State Office in Copenhagen, Denmark."

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BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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* Section 1. AS 44.19.640 is amended to read:

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Sec. 44.19.640. ALASKA STATE OFFICE CREATFD. There is created

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within the Office of the Governor an Alaska State Office with external

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affairs offices to be opened and maintained in Tokyo, Japan and

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Copenhagen, Denmark, as an outlet for economic development, resource,

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and trade information, and as a contact point for government and private

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industry of Alaska, [AND] the Far East, Scandinavia and Western Europe

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in promoting and carrying on trade between the state and other centers

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of foreign trade [THE FAR EAST].

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BILL # 3

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska Underutilized Fish
7 Species Board; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 18 is amended by adding a new chapter to read:

10 CHAPTER 92. ALASKA UNDERUTILIZED FISH SPECIES ACT.

11 Sec. 18.92.010. PURPOSES. The purposes of this chapter are to

12 (1) encourage the Alaska fishing industry to make greater use
13 of the ocean resources off the coast of Alaska;

14 (2) expand the range of species harvested by the Alaska
15 fishing industry;

16 (3) enable the Alaska fishing industry to maintain the quali-
17 ty of underutilized fish species caught and placed on the market by
18 Alaska fishermen and processors;

19 (4) enable the Alaska fishing industry to formulate and
20 effectuate directly or in cooperation with other agencies and instru-
21 mentalities research and sales stimulation and consumer or other
22 educational programs designed to increase the use and consumption of
23 underutilized fish species.

24 Sec. 18.92.020. BOARD ESTABLISHED. (a) There is established in
25 the Department of Fish and Game the Alaska Underutilized Fish Species
26 Board, which consists of seven members appointed by the governor and
27 confirmed by a majority of the members of the legislature meeting in
28 joint session. Members of the board shall be residents of this state
29 and shall be processors or fishermen of underutilized fish species.

1 (b) Members shall serve terms of three years. Initial appoint-
2 ments of members are two members serving for one year, two members
3 serving for two years, and three members serving for three years.

4 (c) The commissioner or his designee shall be an ex officio member
5 of the board and shall enforce this chapter.

6 (d) Members of the fishing industry may make recommendations of
7 persons to serve on the board. The governor shall make his appointments
8 to the board from the list of persons recommended by the industry.

9 (e) Four members of the board constitute a quorum.

10 (f) The board shall elect a chairman annually and shall hold at
11 least one regular meeting a year. The board shall meet at the call of
12 the chairman or upon the written request of two members of the board.

13 (g) Board members receive no salary, but are entitled to per diem
14 and travel expenses authorized by law for other boards and commissions.

15 Sec. 18.92.030. PUBLIC MEETINGS. Meetings of the board are open
16 and public.

17 Sec. 18.92.040. DUTIES. (a) The duties of the board are to

18 (1) conduct programs of education, research, advertising or
19 sales promotion designed to accomplish the purposes of this chapter;

20 (2) establish standards of quality and purity for under-
21 utilized fish species;

22 (3) make contracts and other agreements which may be proper
23 to promote the sale of underutilized fish species and their products
24 produced, processed or distributed on either a local, state, national or
25 international basis;

26 (4) cooperate with any other local, state or national board,
27 organization or agency, whether voluntary or created by state or federal
28 law, and engaged in work or activities similar to the work and activi-
29 ties of the Alaska Underutilized Fish Species Board and make contracts

1 and agreements with those organizations or agencies for carrying on
2 joint programs of consumer education, sales promotion, quality control,
3 advertising and research in the production, processing or distribution
4 of underutilized fish species;

5 (5) conduct, or contract to have conducted, scientific
6 research to develop and discover the health, dietetic or other uses of
7 underutilized fish species;

8 (6) prepare annually a budget of proposed expenses of the
9 board to be incurred in carrying out this chapter, and to make modifi-
10 cations of that budget whenever advisable;

11 (7) promulgate regulations relating to the administration and
12 enforcement of this chapter;

13 (8) investigate all matters affecting the administration of
14 this chapter, and to report violations to the commissioner or his
15 designee;

16 (9) employ at its pleasure an executive director and other
17 employees it considers necessary and prescribe their duties and fix
18 their compensation;

19 (10) establish offices and incur expenses incidental to the
20 performance of its duties;

21 (11) present facts to, and negotiate with local, state or
22 federal agencies on matters affecting quality, production, processing or
23 distribution of underutilized fish species.

24 (b) The commissioner shall, by regulation, define "underutilized
25 fish species" for the purposes of this chapter and shall implement
26 programs as the board formulates for the quality control and promotion
27 of underutilized fish species which are

28 (1) reasonably calculated to attain the objectives sought in
29 this chapter;

1 (2) in conformity with this chapter and within the applicable
2 limitations and restrictions set out in this chapter and which will tend
3 to effectuate the declared purposes and policies of this chapter; and

4 (3) reasonably calculated to protect the interests of con-
5 sumers of underutilized fish species, in that the powers of this chapter
6 are being exercised only to the extent necessary to attain the objec-
7 tives of this chapter.

8 Sec. 18.92.050. FALSE OR UNWARRANTED CLAIMS. No program or
9 activity conducted or sponsored under this chapter may make false or
10 unwarranted claims or disparage the quality, value, use or sale of any
11 commodity authorized by law to be marketed in this state, nor shall the
12 programs be conducted to promote directly a private brand or trade name.

13 Sec. 18.92.060. LOBBYING. No member, agent or employee of the
14 board may appear before any legislative committee of the state or
15 federal government as a representative of the board unless requested to
16 do so by the committee, nor may the person lobby in any manner as a
17 representative of the board. Funds collected under this chapter may not
18 be used for political contributions.

19 Sec. 18.92.070. ANNUAL STATEMENTS. The board shall prepare
20 annually and make available to all underutilized fish species processors
21 and the legislature summarized statements of the activities in which it
22 has been engaged in the previous year, and of the activities in which it
23 proposes to engage in the ensuing year.

24 Sec. 18.92.080. RECORDS AND ACCOUNTS. The board shall keep books,
25 records, and accounts of all its transactions, dealings, contracts,
26 agreements, funds, and expenditures, as it considers necessary, and the
27 books, records, and accounts shall be open at all times to inspection or
28 auditing by the commissioner and the legislative auditor.

29 Sec. 18.92.090. REGULATIONS. The board may establish, consistent

1 with this chapter, regulations covering the administration and enforce-
2 ment of this chapter which may be necessary to carry out the purposes
3 and attain the objectives of this chapter. No regulation is effective
4 until the termination of a period of 15 days from the date of its
5 adoption. The commissioner shall mail a copy of the notice of the
6 issuance to all persons directly affected by the regulations whose names
7 and addresses may be on file in the office of the commissioner and shall
8 supply a copy of the regulation to every person who files in the office
9 of the director a written request for the notices.

10 Sec. 18.92.100. LIST OF PROCESSORS. (a) The commissioner shall
11 prepare annually a list of underutilized fish species processors as
12 defined in sec. 140 of this chapter for use in carrying out procedures
13 prescribed in this chapter. To enable the commissioner to prepare a
14 complete list of processors, he may require all persons who operated as
15 processors in the preceding year to file with him a certified statement
16 showing

- 17 (1) the correct name and address of the processor; and
18 (2) the gross dollar value paid to fishermen during the
19 preceding calendar year.

20 (b) The information contained in the individual reports of pro-
21 cessors filed with the commissioner under this section may not be made
22 public by the commissioner in that form, but the information contained
23 in the reports may be prepared in combined form for use by the commis-
24 sioner, his agents, or other authorized persons, in the formulation,
25 administration and enforcement of a quality control order, or may be
26 made available under court order; however, the information may not be
27 made available to anyone for private purposes.

28 Sec. 18.92.110. PENALTY. (a) The commissioner, with the con-
29 currence of the board, may order the closure of any underutilized fish

1 species processing plant in which a provision of this chapter or a
2 regulation relating to quality control is being violated. The order
3 shall specifically itemize the reasons for the closure, and the closure
4 shall not take place until 30 days after receipt of the order by the
5 owner or operator of the plant. If, before the expiration of the 30
6 days, there is no longer any violation as set out in the order, the
7 plant shall not be closed. The plant may not reopen until there is full
8 compliance with the law and regulations referred to in this section.

9 (b) An order under (a) of this section may be suspended or set
10 aside, in whole or in part, through injunction proceedings brought by a
11 party in interest against the commissioner and the board in the superior
12 court.

13 Sec. 18.92.120. ADMINISTRATIVE PROCEDURE ACT. The Administrative
14 Procedure Act (AS 44.62) does not apply to this chapter.

15 Sec. 18.92.130. EXECUTIVE BUDGET ACT. The board's budget is
16 subject to the Executive Budget Act (AS 37.07).

17 Sec. 18.92.140. DEFINITIONS. In this chapter

18 (1) "board" means the Alaska Underutilized Fish Species
19 Board;

20 (2) "commissioner" means the commissioner of fish and game;

21 (3) "underutilized fish species" includes those species of
22 fish designated by the commissioner in accordance with sec. 40 of this
23 chapter as subject to the provisions of this chapter;

24 (4) "underutilized fish species processors" or "processors"
25 means a person cooking, canning, freezing or otherwise preparing under-
26 utilized fish species commercially for human consumption.

27 * Sec. 2. This Act takes effect immediately in accordance with AS 01.10.-
28 070(c).

4325
Williams/Varela
10/21

BILL # 4

IN THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE - SECOND SESSION

Relating to the creation of a special
fisheries task force on underutilized
species.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the enactment of the Fisheries Conservation and Management Act of 1976, Public Law 94-265, has created a tremendous opportunity for the expansion of the domestic fishing industry in Alaska; and

WHEREAS this opportunity for expansion is dependent upon the utilization of species which are presently underutilized by the domestic industry; and

WHEREAS the utilization of these species will require dramatic changes in the fishing techniques and structure of the existing Alaska fishing industry; and

WHEREAS the benefits to be realized by this opportunity will not fully be realized by Alaska and Alaskans unless residents of Alaska are actively involved in pioneering the domestic development of Alaska's underutilized fisheries stocks; and

WHEREAS the problems to be overcome in achieving the goal of resident Alaskans participating in the opportunity created by the expansion of the fisheries conservation zone to 200 miles are significantly different in many ways from the problems which are present in the established Alaskan fishing industry; and

WHEREAS it is imperative that the State of Alaska play an active role in guaranteeing the opportunity of residents of Alaska to participate in the inevitable development of the many new fisheries in waters adjacent to Alaska both for the well-being of its citizens and the creation of economically

1 viable renewable resource industries in this State;

2 BE IT RESOLVED by the Alaska State Legislature that the Governor is
3 respectfully requested to create a special fisheries task force on under-
4 utilized species to act as an advisory body to the Administration and the
5 Legislature on the development of state programs and policies; and be it

6 FURTHER RESOLVED that the special fisheries task force on underutilized
7 species shall coordinate its activities with the Governor's Fisheries Council.

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BILL # 5

1 IN THE HOUSE

BY OSTERBACK

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making a special appropriation to the Legisla-
7 tive Affairs Agency to obtain information concerning
8 the potential utilization of production credit associa-
9 tions by Alaskan fishing and agricultural interests;
10 and providing for an effective date."

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

12 * Section 1. The sum of \$45,000 is appropriated from the general fund to
13 the Legislative Affairs Agency to retain the services of a consultant who
14 will conduct a survey of Alaskan fishermen, fish processors, and agricultural
15 interests to determine the suitability of production credit associations for
16 providing development capital in the state, and the potential benefits to the
17 state derived from increased participation in those cooperative lending
18 associations.

19 * Sec. 2. This Act takes effect July 1, 1978.

BILL # 6

IN THE HOUSE

BY OSTERBACK

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

TENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation for a study of Alaska's fisheries taxation law; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of \$46,500 is appropriated from the general fund to the Legislative Affairs Agency for the purpose of conducting an analysis of Alaska's fisheries taxation law.

* Sec. 2. The unexpended and unobligated portion of this appropriation lapses into the general fund June 30, 1979.

* Sec. 3. This Act takes effect immediately in accordance with AS 01.10.-070(c).

THE LEGISLATURE OF THE STATE OF ALASKA
TENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. HCR

Title Directing Legislative Council to conduct a fisheries taxation analysis

Requested by Representative Osterback

Date 11/19/77

II. FISCAL DETAIL

Agency Affected Legislative Affairs Agency and Dept. of Revenue

Program Category Affected ---

Budget Request Unit(s) Affected ----

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES		21.5	-0-			
200 TRAVEL		3.0	-0-			
300 CONTRACTUAL		20.0	-0-			
400 COMMODITIES		2.0	-0-			
500 EQUIPMENT		-0-	-0-			
600 LAND & STRUCTURES		-0-	-0-			
700 GRANTS, CLAIMS, ETC.		-0-	-0-			
TOTAL		46.5	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND		46.5				
FEDERAL FUNDS		-0-				
OTHER (Specify)		-0-				
		-0-				

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY		4				

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The analysis will not require new positions for either Legislative Affairs or Dept. of Revenue. The analysis is intended to be conducted using two temporary clerical (range 12), two temporary auditors (range 18) and a consultant. Temporary staff and consultant will be needed for approximately three months. \$5,000 of contractual services is intended for any necessary computer programing or data processing. The analysis will require a review of present fisheries tax law, including amounts and distribution of tax liability, and a policy analysis of present law; and recommendations for revision to the fisheries tax laws, including justification and impact.

IV. DATE 12/7/77

PREPARED BY John Williams, John Messenger
AGENCY Legislative Affairs/Dept. of Revenue
PHONE 465-4918/465-2302

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)

BILL # 6

1 IN THE HOUSE

BY OSTERBACK

2 HOUSE CONCURRENT RESOLUTION NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 Directing the Legislative Council to
6 conduct an analysis of Alaska fishery
7 taxation policy.

8 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 WHEREAS Alaska's fishery taxation laws are still based on a taxing
10 system established during Alaska's territorial days when the only significant
11 fishery was the Alaska salmon fishery; and

12 WHEREAS this antiquated taxing system discriminates irrationally between
13 species of fish, between types of final fishery products produced, between
14 raw fish value and wholesale value in determining tax bases for different
15 species, and between types and location of processing facilities utilized;
16 and

17 WHEREAS the recently enacted 200-mile fisheries law offers opportunities
18 for a greatly expanded fishing industry in Alaska based on species not pres-
19 ently utilized to any degree by the domestic fishing industry;

20 BE IT RESOLVED that the Legislative Council is directed to conduct, in
21 cooperation with the Department of Revenue and through the Legislative Affairs
22 Agency, an analysis of fishery taxation policy; and be it

23 FURTHER RESOLVED that the Governor is respectfully requested to direct
24 the Department of Revenue to assist the Council in conducting this study; and
25 be it

26 FURTHER RESOLVED that the Legislative Council report its findings and
27 recommendations to the First Session, Eleventh Legislature.

BILL # 7

1 IN THE HOUSE

BY OSTERBACK

2 HOUSE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 TENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act amending the Commercial Fishing Loan Act; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 16.10.310(a)(1) is amended by adding a new subparagraph
10 to read:

11 (C) corporations, partnerships, or joint ventures 51 per
12 cent of which are owned by individual commercial fishermen who have
13 been state residents for a continuous period of five years and have
14 had a commercial fishing license for three years for the purchase,
15 construction, repair or upgrading of fishing vessels or gear;

16 * Sec. 2. AS 16.10.320 is amended to read:

17 Sec. 16.10.320. LIMITATIONS ON LOANS. A commercial fishing loan
18 may not exceed \$150,000. A loan may not run longer than 15 years or
19 bear interest exceeding seven per cent, and, except as provided under
20 (b) of this section, it shall be secured by a first lien and appropriate
21 security agreements, except that a lien in favor of the state is not
22 required for loans guaranteed fully by the federal government under the
23 Federal Ship Financing Act of 1972 (46 U.S.C. secs. 1271-1279b; 86 Stat.
24 909), as amended. In the case of a security agreement given to secure a
25 loan made under secs. 300 - 370 of this chapter and covering a vessel
26 documented under the laws of the United States and so long as the Ship
27 Mortgage Act of 1920 (46 U.S.C. secs. 911-984; 41 Stat. 1000), as
28 amended, and the Shipping Act of 1916 (46 U.S.C. secs 801-842; 39 Stat.
29 728), as amended, remain ambiguous with respect to whether or not a

1 state or state agency qualifies as a citizen of the United States for
2 purposes of those Acts, the first lien requirement of this section may
3 be satisfied by the recordation and endorsement of a first preferred
4 ship mortgage under the Ship Mortgage Act of 1920, and by perfection of
5 a security interest under the Uniform Commercial Code - Secured Trans-
6 actions (AS 45.05.690 - 45.05.794), if the approval of the Secretary of
7 Commerce is obtained under 46 U.S.C. sec. 839 for the transfer to the
8 department of the interest in a vessel documented under the laws of the
9 United States. In the case of a security agreement given to secure a
10 loan made under secs. 300 - 370 of this chapter and covering a vessel
11 documented under the laws of the United States, the first lien require-
12 ment of this section may also be satisfied by use of a trust deed and
13 bond issue under it, if the trustee is a citizen of the United States
14 and obtains a first preferred ship mortgage on the vessel under the Ship
15 Mortgage Act of 1920, and the approval of the Secretary of Commerce is
16 obtained under 46 U.S.C. secs. 839 and 961 for the transfer of the bond
17 or bonds to the department if the trustee is not a trustee approved by
18 the Secretary of Commerce under 46 U.S.C. secs. 808, 835 and 961. Loans
19 granted under this subsection may not exceed 75 per cent of the ap-
20 praised value of the collateral used to secure the loan.

21 * Sec. 3. AS 16.10.320 is amended by adding a new subsection to read:

22 (b) A commercial fishing loan for the repair, restoration, or
23 upgrading of existing vessels and gear or for the purchase of gear and
24 the construction and purchase of fishing vessels may be secured by a
25 lien subordinate to a valid first lien and security agreement granted to
26 a private lending institution. A loan granted under this subsection

27 (1) shall be to an obligor approved by the commissioner as
28 responsible and possessing the ability, experience, financial resources,
29 and other qualifications necessary to the adequate operation and mainte-

1 nance of the fishing vessel;

2 (2) may not exceed \$150,000 or 15 per cent of the appraised
3 value of the fishing vessel, whichever amount is less, when a fishing
4 vessel is to be constructed or an existing fishing vessel is to be
5 purchased;

6 (3) may not exceed \$150,000 when a fishing vessel or gear is
7 to be repaired, restored, or upgraded;

8 (4) may not exceed a term of 15 years;

9 (5) may not bear interest exceeding seven per cent.

10 * Sec. 4. This Act takes effect July 1, 1978.

APPENDIX

- A Interim Resources Committee Work Plan and Research Proposal
- B Marketing Survey, Questionnaires, and Summary of Responses compiled by Laurie Berg.
- C "Banks for Cooperatives: How They Operate"
- D Infrastructural Comparison of Alaskan Coastal Communities
- E Minutes on December 9, 1977, Meeting on Bottomfish Study (including a summary of Dr. Belden Daniels' proposal on an Alaskan Fisheries Development Fund Act)
- F "Implications of Foreign Investment for Alaska Policy Toward Bottomfish Development," by Dr. Franklin L. Orth.
- G "Development of an Alaskan Bottomfish Industry and State Taxes," by Dr. George Rogers.
- H October 10, 1977 Memorandum from Kathy Hathaway to Rep. Alvin Osterback (wherein is contained her report).
- I Report submitted by Frank Glass.

APPENDIX A

R E S O U R C E S

I N T E R I M C O M M I T T E E

200 MILE LIMIT RESEARCH PROPOSAL

Rep. Alvin Osterback, Chairman
House Resources Committee

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R E S O U R C E S

I N T E R I M C O M M I T T E E

I. EXISTING SITUATION & POTENTIAL

First, let us look at what bottomfish stocks are in the Alaskan waters and how much is being harvested by Alaskan Fishermen. Page 2 shows a comparison of "Sustainable Yield" and "Present Domestic Harvest."

Import - Export Market¹ Annual Figures

U.S. net balance of payment for fish products \$ 1.3 billion
(Imports - exports = net payout)

If the U.S. would utilize all resources of the 200 mile zone, this figure would become a net income of . . . \$ 6.6 billion

(Net gain of \$ 7.9 Billion)

For comparison, wheat export revenues are \$ 3.9 billion

The U.S. now pays Korea for imported Pollack caught in Alaskan 200 mi. zone \$ 27 million

If Alaskan fishermen caught all the Pollack the total revenue would be \$ 6.64 million

(Net gain of \$33.64 million in Pollack alone)

U.S. sales of seafood exports:

 Present \$ 2.7 billion

 Utilizing 200 mile limit \$ 12 billion

(Net gain of \$9.3 billion or 344%)

Pacific Northwest, including Oregon & Washington
(Most of the Coastal miles are Alaska, though)

 Present catch .25 billion lb.

 Utilizing 200 mile limit, by 1985
 this catch could be . . . 6.6 billion lb.

¹ Statistics received from New England Fish Co.

II. PROPOSED STATE OBJECTIVES

Alaska should capture and market the marine resources of the 200 mile limit zone on a sustained yield basis and return the profitability of that resource harvest to the People and the State of Alaska.

- A. The Committee's first task will be a general economic feasibility analysis of the proposed objective to determine the feasibility of achieving the objective.
- B. The Committee's second task will be to analyze alternative goals and strategies to achieve the objective of moving the Alaskan economic sector into the 200 mile zone marine harvest. This will necessarily entail a detailed analysis of the problem areas of harvesting, marketing, financing, and marketing.
- C. The Committee's third task will be to analyze existing industry and develop proposed pilot projects to test out the ideas and alternatives developed by the Committee.
- D. Finally, as an end product the Committee will make recommendations on the following by January 1978:
 1. State Role (if any) in developing the marine resources of the 200 mile zone.
 2. Federal Role (if any) in developing the marine resources of the 200 mile zone.
 3. Specific State and Federal legislation and programs needed to implement the overall objective.
 4. Further study areas.