HB 763 cont.

III. ECONOMIC FEASIBILITY ANALYSIS

The Resources Interim Committee will determine if an Alaskan industry utilizing the 200 mile zone can compete economically with the foreign fleets, addressing the following items.

A. Will the Domestic consumer be able to buy the product at a price competitive with imported products?

B. How will Alaskan bottomfish products compete on the foreign markets?

C. The foreign fleets (Koreans, Japanese) pay one-tenth to one-eighth the wages that we will be paying, contributing to their low overhead. Will our overhead be low enough so we can compete?

D. How will increased production affect market prices?

E. What will be the overall impact on the Alaskan economic and state revenues?

These questions are of a general nature. The more specific economic analysis will take place in the next p[illegible] of "Problem Areas for Alaska."

IV. PROBLEM AREAS FOR ALASKA

A. HARVESTING

1. Technology

Foreign Fleets. Foreign processing plants are huge ships. Fleets include icebreakers and hospital ships. Even the foreign catch boats are bigger than our large fishing boats. No comparable American fishing boats exist today, let alone in the North Pacific.

Labor Force. It is evident that the technology involved for fishermen and processors will be totally new. Thus, a labor force will have to be (re)educated.

What Technology? There are places to go to help determine what technology is necessary for both the fishing boats and the processing plants. The Scandinavians have the processing technology. This involves machinery that cleans and filets bottomfish.

2. Committee Objectives

a. Identify the relationship of necessary technology to existing fleets and processors.

   i. What are the capabilities of existing fleets?

   ii. Should we go all new, with gear and processing plants comparable to foreign fleets, or

   should we upgrade our existing fleets and processing plants?
   EXAMPLE: Could we regear our larger crab & shrimp boats to do a good job?

b. Identify the technology necessary to develop the fleet and for the processors.

c. Identify the necessary training for fishermen, processing managers, and processing employees. Identify

   i. who we can get to do this training,

   ii. cost of training, and

   iii. necessary financing of training.

d. Determine a cost estimate for developing the fleet and processing for

i. the entire fleet and operation necessary,

ii. each separate fishery, and

iii. to the individual fisherman and processor.

e. Recommend financing, considering

i. private sector financing,

ii. federal financing, and

iii. should the State aid in financing, and if so, in what way? (Direct loan program, guaranteed bank loans, etc.)

B. MARKETING

I would like to paint a picture for you for a moment. Let's suppose that Alaskan Fishermen caught the bottomfish and sold them to the foreign processors. Where we now pay $.60/lb. for imported fish products (fish & chips, etc.), we would then pay $.40/lb. Already this coming summer Alaskan Fishermen will be catching Pollack in the Bering Sea and selling it to the Koreans. If a situation evolves where foreigners are buying the catch of American fishermen, this could have a very detrimental effect on Alaska's fisheries industry. WE WOULD HAVE NO CONTROL OF THE MARKET. Since the foreigners would be controlling the processing, wholesale market, etc.; they would be controlling the market and even dictating what the fisherman gets for his catch.

Conversely, if Alaskans were catching, processing, and wholesaling the products of the 200 mile zone, Alaskans would be the market controllers. The oil industry, for example, has an integrated market where they control it from extraction to the retail consumer.

Thus, extensive marketing research will be necessary to develop foreign and domestic markets. The committee will have to determine marketing objectives and goals. Some follow.

Marketing Objectives

1. Outline a procedure and timetable for marketing research: domestic and foreign.

B. MARKETING (cont.)

2. Determine questions to be addressed by this marketing research. Factors to be considered include:

   a. Identification of markets.

   b. Necessary negotiations to gain control of these markets.

   c. Cost of developing markets.

   d. Financing.

3. Determine an appropriate role for the State to take in market development, negotiations, and financing.

C. FINANCING

Financing Objectives

1. Identify a total program cost estimate and cost estimates for

   a. the fisherman,

   b. the processor,

   c. training due to new technology, and

   d. cost of marketing including market development.

2. Identify private sector financing possibilities.

3. Identify federal financing programs.

4. Consider joint ventures with foreign concerns. the Danish Consulate is very interested in a joint venture with Alaskans and recently visited Alaska for that purpose.

5. Recommend to the Legislature and the State of Alaska what the State's role should be in financing.

   a. Should the State help finance market research and development?

   b. Should the State help finance the private sector's financial burdens in developing this industry?

   c. What other possibilities exist for the State's role in financing.

D. MANAGEMENT

Management Objectives

The Committee will:

1. Determine what type and control of management will most suit the 200 mile zone.

2. Determine what the State's role will be in management.

3. Determine the relationship and effect of International Agreements and Alaskan development of the 200 mile zone.

4. Confer with and identify the role of the North Pacific Fisheries Council.

5. Identify other management factors and possible problems.

V. PILOT PROJECTS - The Testing of Goals & Strategies

The Resources Interim Committee will analyze existing pilot projects and develop proposed pilot projects to to test out the ideas and alternatives developed by the committee.

Two pilot projects in Alaska are presently being helped financially to cover their losses. They are Petersburg Fisheries Inc. and New England Fish Co. in Kodiak. No statistics are out yet. Mr. Dick Reynolds, the Development Specialist for Fisheries in the Department of Economic Development told me that he will help the Committee out in any way he can.

The Scandinavians, as I stated earlier, have developed processing for bottomfish. I understand that this equipment is being used at Petersburg Fisheries Inc.

Objectives

The Committee will:

- Analyze the existing pilot projects.
- Develop proposed pilot projects.
  EXAMPLE: Regearing crab boats for bottom fisheries.

VI. PUBLIC HEARINGS

The Committee will investigate existing Pilot Projects in Petersburg and Kodiak, possibly early in the interim to allow for analysis of them.

After the Committee has finished its initial research and has developed some ideas and alternatives, it will hold Public Hearings in rural areas to get public input from those persons directly affected. The locations for these hearings will be those most likely to be directly involved in the fishing of the 200 mile limit.

A. Investigation of Existing Pilot Projects

Kodiak	1 day
Petersburg	1 day

B. Public Hearings

Petersburg - Hydaburg - Ketchikan	4 days
Cordova	1 day
Sand Point - Unalaska	5 days
Kodiak - Old Harbor	3 days
Seward - Kenai	3 days
TOTAL	18 days

NOTE: I would like to leave it up to the Committee whether they want to investigate the pilot projects early in the interim or if they wish to do it at the same time they go to conduct public hearings.

The travel budget is for 5 persons:
3 Committee members
1 staff person
resident legislator

VII. COMMITTEE PRODUCTS

Finally, as an end product, the Committee will make recommendations on the following by January 1978.

A. State role (if any) in developing the marine resources of the 200 mile zone.

B. Federal Role (if any) in developing the marine resources of the 200 mile zone.

C. Specific State and Federal legislation and programs needed to implement the overall objective.

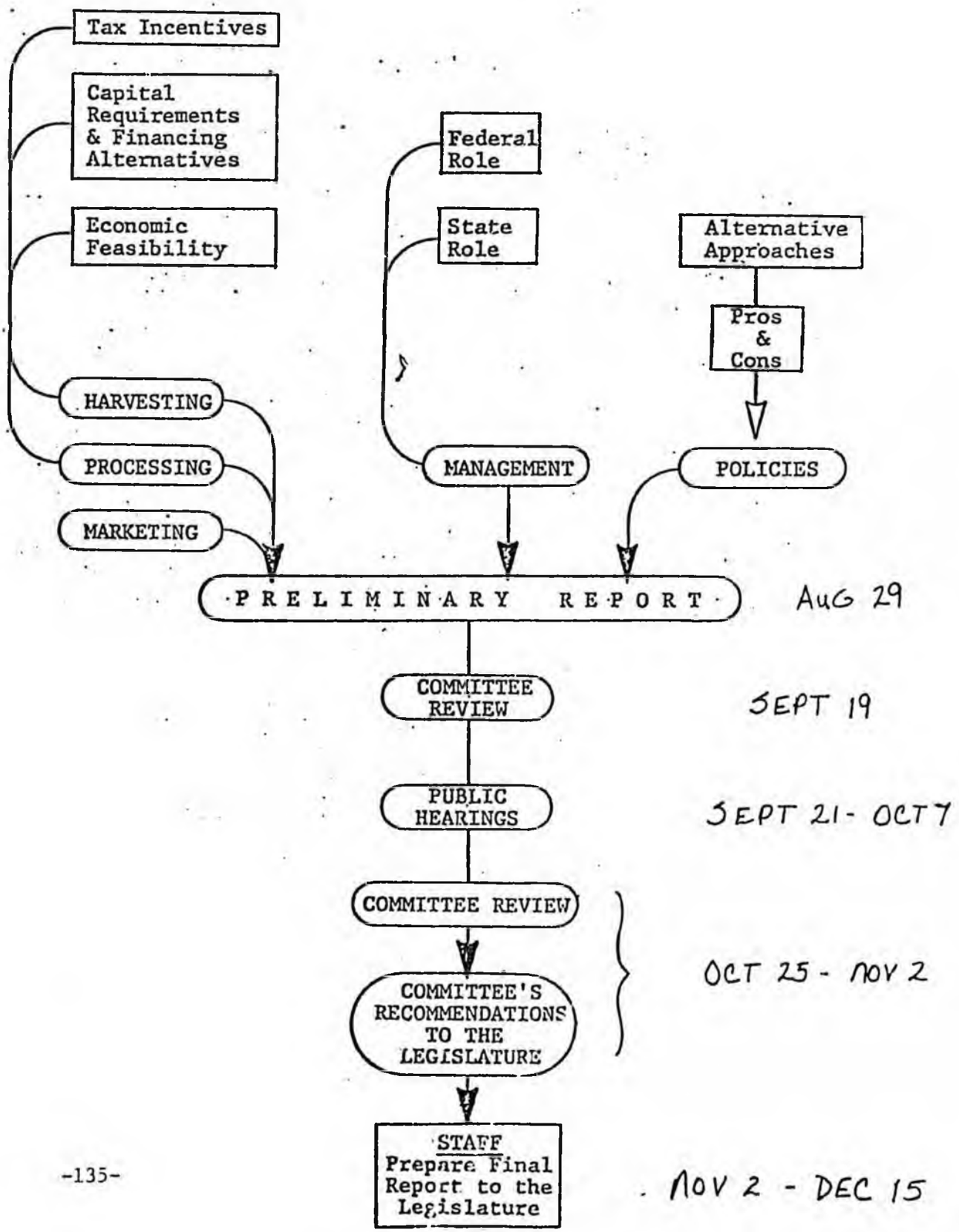
D. Further study areas.

APPENDIX A

INTERIM RESOURCES COMMITTEE

BOTTOMFISH WITHIN THE 200-MILE LIMIT

WORK PLAN



APPENDIX B

Alaska State Legislature

House

JUNEAU ALASKA

INTERIM RESOURCES COMMITTEE

Rep. Alvin Osterback
Chairman

Pouch V, State Capitol
Juneau, Alaska 99811
(907) 465-3715

30 November 1977

TO: Diann Nelson, Project Director

FR: Laurie J. Berg, Staff Assistant

RE: Bottomfish project-questionaires and survey tabulation.

Attached to this memo, you will find summations of the results of four surveys and questionaires initiated by the bottomfish committee:

1. Local Restaurant Survey
2. Local Grocery Market Survey
3. Native Corporation Questionaire
4. Fishermen's Questionaire

I hope these results will enhance the final bottomfish report. I hope to further develop the tabulations before the project ends, health permitting.

LOCAL RESTAURANT SURVEY

How many dishes are on your lunch menu?

A. fish	8	6	1	17	8
B. meat	5	20	3	18	
C. Poultry	1	3	1	3	
D. Combination	2	2		4	

How many dishes are on your evening menu?

A. Fish	32	8	1	12	19
B. Meat	15		3	11	14
C. Poultry	3		1	1	1
D. Combination	2			3	1

How many pounds of fish do you use a year?

one and a quarter ton
two thousand pounds
5000 thousand pounds
35,000 pounds
no pound estimate...app. 25% of total meat, poultry, and fish.

How much meat?

10,000 pounds
no meat
50,000 pounds
3,500 pounds
approximately 65% of total meat, poultry, and fish.

How much poultry?

N/A
10% of total meat, poultry, and fish
5000 pounds
no poultry
3000 pounds

Is there seasonal demand for fish dishes? If so when is demand greatest...when the least?

summer is the greatest. winter the least. -4
summer is greatest, fall the least.

Where do you get your fish?

Seattle, Pacific Fish
Juneau Cold Storage -2
Mrs. Friday's Brand, Seattle, Washington
Hoonah, Local fishermen, Seattle

What quantity and brand?

Mrs. Friday's Brand
Pacific Fish, 1000 pound lots

LOCAL GROCERY MARKET SURVEY

How many fresh fish products are sold?

five -2
four
nine
five-six

What types of fish are sold?

salmon, halibut, king crab, dungeness crab, cod
salmon, halibut, king crab, dungeness crab
salmon, herring, black cod, halibut, red snapper, crab
halibut, salmon, red snapper, black cod, cod
salmon, halibut, oysters, black cod, crab

How many frozen fish products are sold?

10-12 varieties...app. 8-10 thousand pounds per year
nine
at least seven brands
most of it
forty

How many canned fish products are sold?

one
five or six
two
no comment- 2

Do you notice an increase or decrease in fish sales?

Increase
No
Decrease because of price increases and lack availability of fresh fish.
Stable
yes. Increases summer. Decreases winter.

What complaints do you receive from shoppers about fresh fish purchases?

Lack of product...especially crab.
Price- 4

Is there an increase or decrease in specific kinds of fish sold?

decrease in salmon. halibut steady.
cod, perch, black cod increase. salmon, halibut decrease.
yes.

Compared to poultry, red meat, what percent does fish account for quantity sold?
.....in value?

2% app. quantity...1% value
1% value
2-3% quantity
5% quantity

Biggest sales of fish are through:

frozen fish section-4
fresh fish section

Where do you get your fish products?

Seattle, local -2
Seattle, Tacoma brokers
Fresh-local, Petersburg, Hoonah. frozen-Seattle
local and Washington

What brands?

Booth-2
Van de Kamp, Captain Hi, Gorton, Delmonte, Booths, Peter Pan, Pacific Pearl
Booth and Pacific Fish Co.
PFI- Royal Alaskan-Pelican

What quantities usually bought?

four cases.
500-600 pounds
cases in frozen and canned sections. ten cases of Van de Kamps halibut per month, eight cases of fish 'n chips, 5 cases of fish kebobs, 5 cases of Booth shrimp, 10 cases of Petersburg shrimp, 12 boxes of clams.
5 cases of canned fish each month.
150 to 175 pounds weekly average

NATIVE CORPORATION QUESTIONAIRE

1. Would it be in the interest of your stockholders to have development of on-shore bottomfish processing as opposed to off-shore processiong?

Yes, it certainly is in the best interest of our stockholders to have a development of an on-shore bottomfish processing operation. Any off-shore operation is simply not in our best interests, as obviously the on-shore community, where our shareholders live and where their destiny lies, is of paramount importance.

Yes, in some instances it could result in complete utilization of some facilities already in existence in some of our S.E. communities. Provide job opportunities in the most difficult areas, rural Alaska.

For one, it could provide employment opportunities for our stockholders and also could provide opportunities for some to engage in commercial fishing activities.

Yes. More local employment.

There is no yes or no answer to this question. The answer to this question could only be determined when the extent of our financial and employment involvement is known.

2. What should be the role of the State in encouraging the full utilization of the bottomfish resources available in Alaskan waters? What programs would be indicated?

We need to know what we have, and in what quantity.

Any program the State of Alaska can institute encouraging full utilization of the resources is totally important to us. The question suggests "what programs?" This cannot be answered in the absence of a description of those programs.

The state should be willing to sponsor Juneau experimental programs, set up loans with reasonable terms recognizing the risks inherent in a beginning industry. Assist in developing markets, subsidize if appropriate to establish the bottom fish industry as a viable industry.
Programs:

1. Market development
2. Deferment of taxes until business becomes profitable.
3. Loans to assist in upgrading facilities and boats.
4. Training programs.

The state should take a leadership role in the development and utilization of bottomfisheries that will eventually be of economic benefit to its people and to the state as well.

Tax credits and other tax incentives. Assistance in developing a market.

3. Do you see the possibility of your corporation investing in the processing of underutilized species of fish? What would be your considerations?

Not at the moment. Our considerations would be based on profitability, employment opportunities for our shareholders, and economic benefits to the region as a whole.

Most certainly. Economics wanted to our main thoughts.

Our corporation is already investing in a processing facility at King Cove. We have other locations in both the Bering Sea and the Peninsula. Any viable operation is again in our best interest.

Yes. Our primary goal would be to seek a profitable return on the investment.

Yes. The above would be helpful.

4. Should the State support research programs in the evaluation of new fish stocks, fishing technology, and marketing?

Yes. This is only reasonable in that foreign interests had the support of the government in New Jersey efforts.

Yes, the State should support programs, but more important is that the programs the State suggests be not only biologically and technologically sound, but must me fiscally viable. Ultimately, as has been said on many occasions, fish must be sold at a higher value than the cost of production.

Yes. 2

Definitely.

5. Should the State consider the expansion of the idea of the King-Crab Quality Control Board to include bottomfish, so that there would be a marketing board for underutilized fish species run by Industry, but financed by the Legislature?

Do not understand question.

Yes.

We have no opinion on this, and think it is premature to attempt an answer.

Yes. As we understand the nature of bottom fish, it has a greater rate of spoilage if not handled properly. If this is true then a quality control board is essential to prevent and avoid the collapse of that particular industry.

not sure.

1. Where do you live?

Anchorage-2
Baranof-Warm Springs Bay-1
Cordova-12
Douglas-1
Halibut Cove-3
Homer-3
Juneau-3
Kasilof-1
Kenai-2
Ketchikan-7
King Cove-1
Kodiak-2
Kodiak Island-1
Petersburg-5
Portland and Alaska-1
Sand Point-2
Sitka-3
Soldotna-1
Togiak-1
Unalaska-1
Yakitat-1
Wrangell-2

2. Where do you fish?

Southeastern-9
Yakitat, Dry Bay-1
Southeastern and Bristol Bay-1
Frederick Sound, Southeastern-1
Northern Southeast-1
Togiak-1
Copper River Flats, Prince William Sound-1
Tree Point, Haines-1
Within 100 miles of Petersburg-1
Alaska-1
Prince William Sound, Area E-1
Unalaska-1
Cook Inlet-2
Cape Cross, Deer Harbor-1
Cook Inlet, Prince William Sound-1
Prince William Sound, the Gulf-3
Prince William Sound-3
Haines to the Canadian Border-1
Kodiak-1
Sand Point-1
Shumagin Island and Alaska Peninsula-1
Copper River-1
Yakitat, the Gulf-1
Kachemak Bay, Cook Inlet-1
Ketchikan area-2
Cordova-1
Area "H", Cook Inlet-1
Between Cape Fox and Cape Decision-1
Bum Point Moser Bay-1
Alser River, Dry Bay Area-1
Area 13B-1
Kachemak Bay-1
Area 1,2,3...mostly Cape Chacom Area-1
Out of Seward-1
Alaska Peninsula-1

3. What specie(s) do you presently fish?

salmon, halibut, king crab, tanners-1
herring, crab, halibut, salmon-1
halibut, shrimp, dungeness-1
salmon, crab, bottomfish-1
halibut-4
salmon, king crab, tanner-1
sockeye and cohos-1
crab and halibut-1
salmon, tanner, king, dungeness-1
salmon, halibut, shrimp-1
salmon, halibut, black cod-2
halibut, salmon-7
salmon, herring, herring roe-4
shrimp-1
king and coho-2
salmon, herring, crab-3
salmon, herring, halibut-1
shrimp, salmon-1
salmon-18
salmon, halibut, crab-3
salmon, bottomfish-1
salmon, crab-3
salmon, crab, shrimp-1
red kings-1

4. Do you feel that you could profitably fish for bottomfish, including Pollock?

no. inadequate boat and gear.-1
no-15
not at present market values, would need larger vessel and new processors-1
not at present market prices-3
not now. am building a larger boat next year and will be able to then.-1
no. I'm a beach fisherman (set netter)-1
no. not for small boats.-1
not at present.-1
no. we don't fish on the open ocean.-1
don't know-6
bottomfish (small scale). not pollock-1
need more information-1
i would like to see a market for gillnet caught incidental bottomfish such as flounder, such a market has worked on Columbia River-1
yes. but at a low profit margin-1
yes.-10
yes. providing the price is right-1
yes. need more gear though-1
yes,if shore machinery needs..set up filleting machines installed-1
yes, if someone will help me get started.-1
if reliable data were made available regarding stock abundance and relative gear efficiency. Also, it would depend on ex-vessel price.-1
yes. if the price were higher.-1
only in protected water...i.e. bays and inlets-1
i feel that i could profitably fish for pollock given a profitable market and a vessel adequate in size and gear for which i would require state or federal assistance.-1
yes. i can profitably fish for anything with thirty years of experience.-1
yes. adequate tenders available for low tonnage vessels.-1
yes. if i was geared and the processors were geared.-1

5. If not, what should be done before this fishery would become profitable?

higher prices-1
more money-1
stable markets-1
better price, better marketing-1
markets identified (processing capabilities built), price economically feasible (i.e., 5 cents pound doesn't pay my expenses)-1
encouragement from processors and better prices for bottom fish-1
no answer-17
don't know-3
allow and encourage investment in the industry from countries other than Japan-1
need development of new and some old shore based processors with apparently European market interests-1
develop dependable markets, including Korean and foreign processors if the American industry cannot provide one.-1
encourage foreign markets to come into Alaska to buy our fish unitl such a time as our fleet is big enough to encourage local processors to enlarge and process.-1
establish local processing facilities. create markets that will provide a price sufficient to justify investment in vessels and gear.-1
shorebased processors developed to handle bottomfish and a market.-1
plants need to be built; low interest loans for suitable ships-1
adequate processors-1
it is tempting to say subsidize the packers on a short term basis, but this flies in the face of a free economy and is the first step to socialism. A better way might be to provide various tax incentives to processors interested in attempting to process and market bottom fish.-1
The shore machinery needs set up filleting machines installed.-1
comprehensive test fisheries need to be conducted so that fishermen, processors, and marketing people gain the experience necessary for a given production fishery to occur.-1
if the fish processors could pay more money for the catch on bottom fish and pollock maybe some big boats could be enduced to fish them in volume quantities.-1
the Alaskan fishermen should be subsidized for such a venture because of the great investment that would be necessary to insure a profit in the future.-1
less government control and more free enterprise-1
fillet and fish meal plants-1
financial assistance in proper vessel and equipment-1
more research and low interest financing-1
on board vessel refrigeration to greeze the catch immeadiatley to be used as human food-2
low cost loan or guarantees for boats and processors-1
I feel strongly that the pollock fishery should be regarded as an Alaska resource and that state and federal loans should be an made available to provide Alaskans with the means of developing the fishery.-1
adequate tenders available for low tonnage vessels-1
need different boat-2
no registration on any fisheries as to restricting boats to any area-1
keep government out-1
to be profitable for me i would have to update my equipment...can be profitable for larger boats.-1
i would need a much larger boat. i have a 30 foot troller which could not be converted-1
the market is being developed now.-1

5. (continued)

no bottomfish in our area-1
open-1
i don't know where to do good on bottomfish-1

6. How adequate are banks, processors, the federal government, and the State government in financing entry into a new fishery?

Banks laugh at you when you apply for a loan but will lend you the same amount for a sport or pleasure boat but not for a commercial fishing boat.
Processors would like to but most of the smaller ones don't have the money and the larger ones are not interested or have their own fishermen to help.
State and Federal governments will not loan unless you can prove a life-time (20 years profitable fishing in a new industry..pollock, hake, sablefish).-1
it has been my experience that state and federal agencies are not interested whatsoever in providing assistance to fishermen.-1
not adequate-1
fair-1
not too adequate because profits are unknown-1
very poor-1
not at present-3
very poor for a newcomer without fishing record.-1
there needs to be more financing-1
don't need the federal and state government interfering anymore.-1
Alaska's banks-poor; processors-poor; federal government-poor; state government-good up to $150,000.-1
very limited-1
not too good-1
they are pretty tight with current salmon fishing.-1
local banks do not loan on fishery enterprises by an individual-1
they don't like to stick their necks out, esp. banks .-1
government regs. cause uncertainity and inhibit private enterprise investment.-1
i believe our bank would help, but a state program would be better.-1
i really don't know, i feel it should be the responsibility of the processors since they are the ones to profit most.-1
no information available-1
need processors-1
they are new to the apects but the outlook might be promising in the future.-1
don't know-13
cautious and inadequate. They are quite hesitant in lending money for something that has never been tried as anyone in their right mind should be.-1
fine-1
prefer to do my own financing-1
poor-4
It is difficult to expect banks to finance new and risky fisheries. Only the largest processors (unfortunatley, because many are now dominated by Japances interests) can afford the risk. Some special incentives should be offered smaller processors.-1
Better than the past, but could be better.-1
adequate-3
yes-1

6. (continued)

none are much good, but local banks, and the state are. The best, especially the state. Banks are afraid of putting big money into any of the fisheries.-1
unqualified to make a fair assessment at this time.-1
state is very poor. Banks and processors are reluctant to finance. Don't know about the federal government.-1
seem willing-2
banks are adequate and financing is adequate. red tape and interest are high-12% at banks on vessels-2

7. Do you think there should be limited entry for a new fishery, such as bottomfish?

not necessarily-the fishery needs to be developed for U.S. take over.. limited entry probably would restrict them.-1
not limited entry but resident entry (year round)-1
yes-9
not until it is needed to limit the number of fishermen.-2
yes. management programs must protect the resource.-1
not to begin with, however some litations must be considered.-1
not yet. don't trade the fishery to a foreign nation for other considerations.-1
not at this time. not enough money or knowledge available to start a new industry.-1
only if the harvest would exceed optimum sustainable yield if fished by U.S. boats only! Limit foreign boats first.-1
Not if it would put the young people of Alaska in a bind the way that the salmon entry program has. especially in this area where this is absolutely the only means of making a living.-1
no, i am against limited entry in any form. it doesn't affect the number of fishermen. it is a money maker for the state-2
not at first-2
No. But the gear situation should be watched to prevent overfishing and consequent uneconomical investment in too much gear. When this begins, limited entry should be implemented.-1
No.-27
No, i don't like the limited entry program as it is presently run now. They are spending their time, money, and efforts on a program that will not insure the longevity of the fishing industry.-1
Hell no! believe in free and competitive enterprise. oppose any limited entry or closed shop unions.-1
Definitely not. Limited entry is about to enter its sixth year and its still working on the salmon and not done yet.-1
Biological assessment is necessary before the impact of a fleet is known. Limited entry is necessary if there is a possibility of overharvesting.-1
I am pro-limited entry for halibut and salmon. However, i do not feel the state should initiate limited entry in a new fishery.-1
no. I don't believe we should conserve fish in American waters, like we have done in the past, for the benefit of foreign nations. There should be an optimum level for both parties concerned.-1
no. 1. some get permits just to sell them. 2. if investment must be made for special gear, a chance to recover investment should be there. 3. it won't be crowded.-1
no. Only when limited entry is justified by management problems in resource management, not management of the fishermen. Limited entry should not be used as an economic incentive.-1
yes. particularily at the beginning of opening a new fishery, then open to everyone later.-1
no, but landing fees for non-residence should be substantially higher than for an Alaskan resident.-1

8. What is your opinion on conflicts between: the trawl fishery and other fisheries? oil development and fisheries? foreign investment in domestic fisheries?

conflicts should be brought up before hearings open to the public.

there is definite conflicts between oil and fisheries. Oil does many things to an area. It brings increased shipping and supply boats that use the same waters tha pot fisheries use.(Kachemak Bay and the lower inlet) If we do not get a shipping lane in and out on the North side of Kachemak bay it will mean the loss of the bays fishery because of gear losses. We are now requesting any help we can get with this matter. The foreign investment in domestic fisheries is here and is a hard one to stop. It makes us rely on other countries economies for our markets and that is quite scary. We need more markets in more countries to insure that we can always sell our fish.

the trawl fisheries must be very closely controlled or they will be very distractove to other fisheries.

there are too many complex questions to answer here.

against foreign investment-against bottom trawl. oil-water and fish do not mix. send it by pipe.

oil vs. fish can be mitigated by aquaculture. foreign investment should be limited wherever possible and American investment encouraged.

trawlers too big. oil and fisheries can get along as can mining. Limit foreign investments.

no opinion- 3

fisheries should have a preference over oil development.

trawl fishing must be compatible both environmentally and sociologically with existing fisheries. oil development must be made compatible through mitigation of adverse impacts, recompensive for damages and preventive measures to minimize adverse impacts. Foreign investment as equity is not desirable. Foreign investment as a means to finance acquisition of plants and facilities by Alaskans through devt financing is desirable.

the trawlers take too many different kinds of fish.

there are numerous severe problems.

trawl and other fisheries can get along if they try. foreign investments can cripple local cannery.

none if attacked in a true spirit of cooperation except in the case of foreign fisheries investment.

8. (continued)

concerning oil, fishing provides more work. now that the pipeline is built it will take relatively a small number of people to run it. The oil industry is important...but, capital intensive rather than labor intensive.

as far as foreign investment, in this age of multi-national corp. investment is investment; I don't know if it makes much difference.

Trawl fishiery is minimal here.

We can live with the trawl fishery and oil development but foreign investments in the domestic fisheries will give us headaches in the future.

Our local cannery is 100% Japanese. This year we received very poor service. I feel by working together we can improve our relations and eliminate conflicts.

The fisheries has no conflict with other fisheries provided there is enough latitude between them. This would be fine if the foreign fisheries will set up shore plants.

conflicts between trawl fisheries and other fisheries can be worked out between fishermen and regulations.
Between oil development and fisheries oil development is necessary but has to regulated so as to do the minimum amount of damage to beds and water.
The oil companies have several hundred times the capital which equals power in so far as what they can and will do. But one blow out or minor spill could kill off a complete fishery or more.
Unless the federal or state make more money available (at a fair rate) state would be better for this purpose, because we have more to gain or lose than the federal government. We will be forced to go to the foreign investments because they also have a lot to gain or lose and are willing to help them

a. trawlers, particularily Japanese, have in the past caught substantial numbers of immature halibut (deemed incidental catch) in areas set aside as halibut nurseries. I feel that this has contributed to the diminishing of halibut numbers.
b. Oil development should not be allowed to affect the quality of any fishery. Strict penalities should be dealt to all violators.
c. Foreign investment in domestic fisheries should be limited so as not to exclude or limit American investment and involvement in any fishery.

large trawlers are a hazard to crab pots. small trawlers are okay. oil is okay. foreign investment is okay

giant trawlers are a hazard to the crabbers. small trawlers are okay. oil development is being sufficiently repressed by red tape.

don't know...fished all my life.

no signicant conflicts.

it would seem that conflicts could best be avoided by zoing by type of fishery. I oppose more foreign investment.

8. (Continued)

Settle the conflicts now before the problem is out of hand.

More compatibility between factions. Competition is healthy. Greed and monopolies are not that way.

Trawl fishery makes no allowances for live escapement. Everything brought us is dead. 2)See no immediate conflict between oil development and fisheries. 3) Foreign investment bad idea in some areas-seeing as they profit from our fisheries too.

I don't think there would be any problems with trawl fishery and other fisheries. Oil development must go on. You get your financing where ever you can.

Areas for trawl and pot fisheries must be delineated. Oil and fish don't mix. Foreign money is O.K. as long as control is limited by U.S. laws.

1. Other fisheries should have rights first, before trawl fishery. 2. Oil development is non-renewable resource so should not destroy a renewable resource in recovery of oil. 3. Keep foreign investment in minority position of control.

foreign investment seems to be the most difficult problem to solve. I believe that citizens should be helped in getting into fishing before foreign ownership is allowed.

Keep trawl fishery-out off-shore.

These conflicts can be overcome.

I see no great conflict.

Oil development should be put in perspective as relatively short-term bonanza. Oil and fish may be perfectly compatible. But, oilmen and fishermen are going to have problems competing with each other for scarce resources in coastal communities.

Trawl-no opinion. Oil-keep the oil companies out. Foreign-should be none.

Joint ventures at this time necessary.

Indiscriminant trawl fisheries off-shore that is taking place now will wreck the future of American off-shore fisheries.

The trawl fishery could have devastating impact on existing fisheries. This should be analyzed carefully, especially the social impacts of displaced fishermen. The longterm impacts of foreign investment should be determined.

The fish and game is doing a good job in the matters involved on fisheries conflicts. We need more oil developments. The price on oil especially in Alaska for consumption is way too high.

8. (continued)

I do not believe there should be any conflict between the various types of fisheries as long as they do not interfere with each other. In regard to the oil development and foreign investments you have not left room to elaborate.

No conflict unless someone is looking for a conflict for political gain.

Oil and fisheries can work side by side without problems. We should develop our own fisheries and not foreign countries.

The first should be carefully watched. Oil development should be allowed but, laws should be passed and ready to make oil companies pay compensation for any and all damages than 40% of company votes and non-voting capital.

Fisheries should compiliment each other. Oil development should beware of fishing industry. Investments by domestic sources should come first. If not available, foreign investments may be allright as long as it helps our economy.

I believe our first priority should rest with protecting and enhancing our renewable resources. Any method of fishing is acceptable, as long as it presents no threat to existing stocks. Foreign investments are a reality; I favor an international concept of "laissez faire" for all enterprises, so favor American businessmen working for themselves.

An environment thats healthy for fish is good for people, too. It would be insane to jeopordize a renewable resource for the sake of a non-renewable one. Dislike foreign interests in local business.

No opinion on first two. Slightly uneasy at control of fisheries by foreigners through investment.

No conflict between fisheries. Oil? No K.M.D.C. type investments at this time.

Some effort should be made to fairly separate the draggers from longlines and potfisheries. No foreign investments.

I know of no comflict between trawling and other fisheries; or with oil and gas. Tremendous conflict with foreign investments.

We have too much foreign investment in fisheries.

9. Should the state support research programs in the evaluation of new fish, stocks, fishing technology, and marketing?

yes-32

no-4

no/yes. This should come from the federal government.

yes. Particularily new stocks-2

Yes. up to a point, much effort should be placed in stimulating the U.S. Department of Commerce, NMFS to fund these programs.

Definitely it will receive heavy criticism from Isaac Walton League though this can be done by private enterprise much cheaper than by government.

Absolutely, this country is in the Dark Ages as far as fisheries go. Alaska sea grant has the flexibility to cover alot of this ground. Funding needed. University fisheries programs need to be expanded...not responsible to needs presently.

Yes. We need further progress in further developments.

No. They could partially subsidize private industry however.

yes. It is the best interest of any state to develop their renewable resources.

Only with accountability requirement for cost effective returns on expenditure of public funds.

No more research. Lets see some action.

Yes. "support" not be "in control of" ..."in charge of"

Yes, if the legislators will allow it. And, any legislator who is directly involved in any fishery should abstain from voting on grounds of conflict of interests.

yes. If the state is going to lend monies this will help them make sure that their investments are not wasted and control the direction of the exploration of all the species of bottomfish.
If the state is not going to make monies available to buy boats and equipment or processor plants, then they still need the information to monitor the industry.

don't know.

No. This business of private enterprise.

Don't interfere.

Industry should take the land in area where their is economic incentive.

9. (continued)

Management tools and enhancement should be primary state concerns.

yes. State not federal.

No. Waster of time and money. Fishermen develop their own technology.

yes. I would like to build a sardine cannery.

No. Let co-ops, individuals handle these items.

No. State should spend their money on rehabilitation programs for the Alaskan salmon stock and more protection-parole and officers.

Only if the monies were not available from investors.

the state should support research programs of reasonable magnitude so long as they produce results that will benefit the fisheries involved.

10. Would you welcome new industry, such as a cannery where you live?

No. additions to existing canneries, yes.-2

yes-38

Yes. no oil or manufacturing, please.

Any new industry would be welcomed here so as to create more employment for the young and the aged, senior citizens.

With surplus lower salmon species; a new industry such as human consumption salmon flour processing is needed. Non-profit hatcheries have overproduced already.

We are surrounded by dead canneries in SE Alaska. Put them in operations with new types of fisheries and fresh ideas and they will be very welcome.

I don't think Anchorage needs new industry, but i'd like to see new industry along Cook Inlet.

For new fisheries only as our present canneries handle all local product.

yes. without E.P.A. and OSHA...etc.

Yes. Whitney Fidalgo needs some real competition in the Upper Inlet area.

don't know.

I'm not sure we need it in Prince William Sound because of the tenders, but Anchorage could use one.

Bottom fish cold storage.

Yes. New businesses always create a better standard of living.

O.K. if not subsidized.

Not applicable to Anchorage.

No. We have enough processors here.

Yes. but, can't possibly support such a new industry-the one here is kept busy enough really.

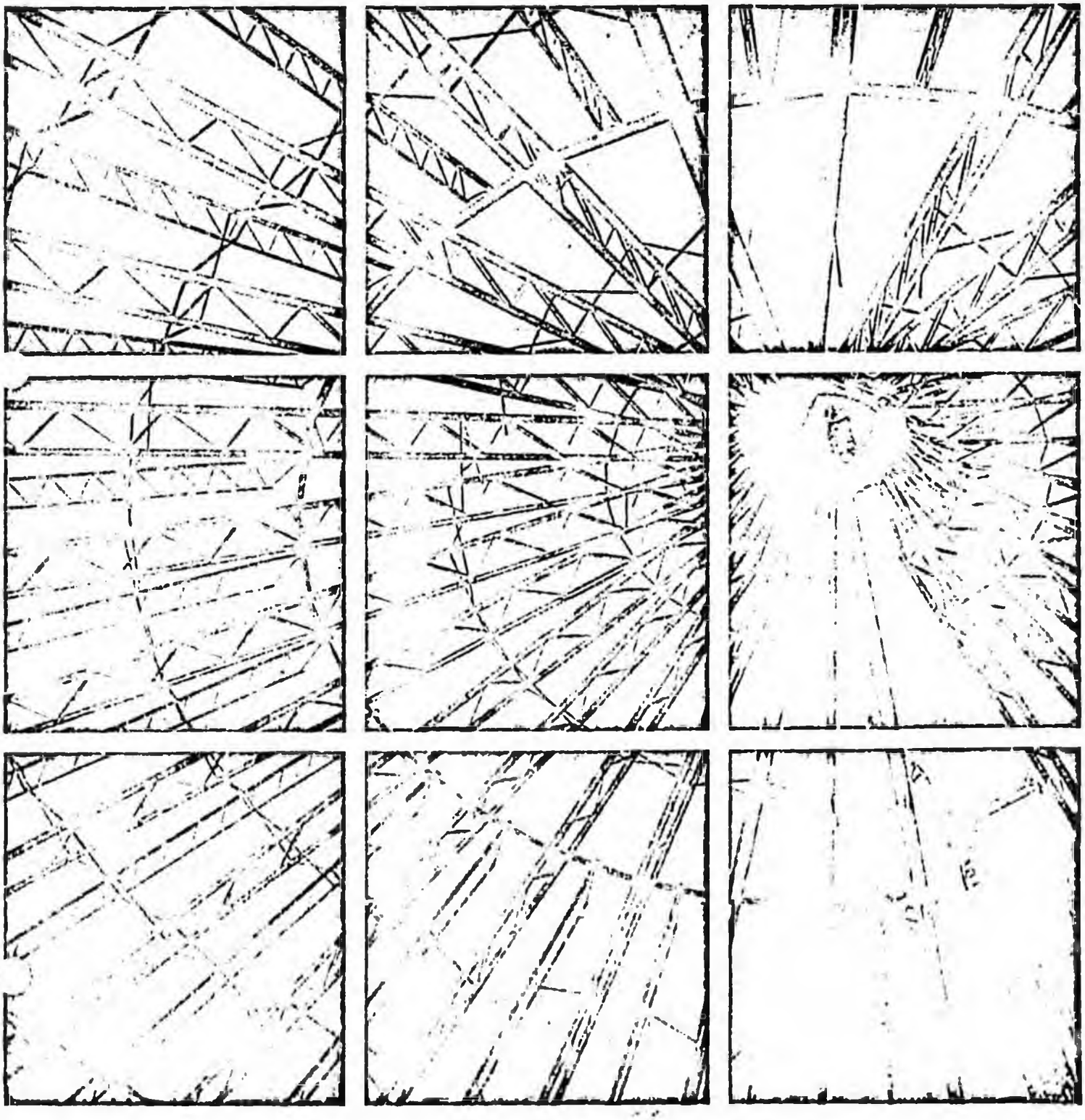
Yes, there are enough canneries in SE Alaska inactive now and the ones that are operational are for two months a year.

I would welcome new industry to Alaska, as i feel that it would be healthy economically for Alaskans.

Banks For Cooperatives

How They Operate

APPENDIX C



"It is declared to be the policy of the Congress, recognizing that a prosperous, productive agriculture is essential to a free Nation and recognizing the growing need for credit in rural areas, that the farmer-owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations."
... from the Farm Credit Act of 1971

Farmers have served this Nation well. They continue to produce an abundance of food and fiber which has made American consumers the best fed at the lowest real cost of any in the world.

Traditionally rugged individualists, few farmers can succeed as isolated businessmen in our present day economy. To obtain high quality agricultural inputs at the lowest possible prices, to market their products profitably, and to have access to other essential services, five out of six American farmers have extended their farm businesses by joining together in cooperatives.

To serve their members in a dynamically changing agriculture, cooperatives are also changing. They are modernizing their facilities, expanding their operations and entering into new fields of agricultural endeavor. All of this takes money, frequently large amounts of money. Some of it comes by direct investments by members and from retained earnings. Much of it, however, is borrowed. This booklet is about a key source of loan funds for cooperatives — the Banks for Cooperatives and how they operate to fill the specialized needs of these farmer-owned business organizations.

THE BANKS FOR COOPERATIVES

The Banks for Cooperatives are cooperatives themselves. They are financial institutions whose business is to improve the income and well-being of producers of food and fiber by providing credit and related services to their agricultural and aquatic cooperatives. A principal objective of the Banks is to furnish these cooperatives with a dependable, continuing source of loan funds. Because the Banks serve only these cooperatives, they understand their organization, functions, problems, and financial needs. The Banks provide about two-thirds of all the credit used by agricultural cooperatives.

There are 12 district Banks for Cooperatives in the United States, each serving the credit needs of eligible cooperatives within its territory. A listing of these Banks and the geographic areas served by each may be found at the back of this booklet. There is also a Central Bank for Cooperatives which participates with the district Banks on larger loans.

WHO IS ELIGIBLE TO BORROW

Any association of farmers, ranchers, or producers or harvesters of aquatic products, or any federation of such associations, which is operated on a cooperative basis for the mutual benefit of its members as patrons and which is engaged in one or more of the following functions, may be eligible to borrow from a Bank for Cooperatives.

1. Storing, packing, processing, or marketing farm or aquatic products.

2. Purchasing, testing, grading, processing, furnishing, or distributing farm or aquatic supplies.

3. Furnishing business services to farmers, producers or harvesters of aquatic products, or other eligible cooperatives.

To be eligible to borrow from a Bank for Cooperatives, a cooperative must also meet the following requirements.

1. At least 80 percent of the voting control of the cooperative must be held by farmers, ranchers, or producers or harvesters of aquatic products. A higher percentage may be required by the board of directors of the lending Bank, but that higher percentage must be required of all borrowers in the district.

2. The cooperative must do at least 50 percent of its business with or for its members. Excepted from this requirement is business done with the United States Government and services and supplies furnished by the cooperative as a public utility.

3. No member of the cooperative shall have more than one vote because of the amount of stock or membership capital he owns, or the cooperative must restrict dividends on its stock or membership capital to either 10 percent per year or the maximum allowed by state law, whichever is less.

Persons engaged in the production or harvesting of aquatic products under controlled conditions—catfish farmers, oystermen, trout breeders, etc.—are considered to be farmers and their associations or federations of their associations may be eligible for loans subject to the same requirements as other cooperatives.

The Banks are also authorized to make loans to fishery cooperatives whose member-fishermen produce or harvest aquatic products in open waters under uncontrolled conditions and which meet the eligibility requirements set forth for other types of cooperatives.

The Banks for Cooperatives may make loans to meet any credit need which will enable an eligible cooperative to perform its marketing, supply, or business service function. The Banks may also make loans for purposes not directly related to the primary function of a cooperative if the amount is relatively modest in relation to the total credit extended and the purpose of the loan will enhance the well-being of its members and patrons.

The Banks for Cooperatives are designed to provide a complete credit service to cooperatives. To accomplish this, the Banks offer loans tailored to meet the specialized needs of their borrowers.

TERM LOANS — Term loans are generally made for financing long term assets or working capital. They may include loans for constructing, remodeling, or expanding facilities, or for purchasing land, buildings or equipment. They are ordinarily made on an amortized basis and may be secured or unsecured depending on the purpose, repayment period, and other credit factors. Loans scheduled for payment over an extended period of time are usually secured.

SEASONAL LOANS—Seasonal loans are made primarily to

finance current or seasonal assets, mature within 18 months, and may be secured or unsecured. Loans secured by goods or merchandise, except for live animals, which are in acceptable storage, are transportable, can be accurately classified by standards of quality and quantity, and which enjoy broad markets may receive special consideration, especially if they are hedged or covered by warehouse receipts or other title documents. Loans of this type are generally called commodity loans.

Established borrowers frequently maintain lines of credit from a Bank which they use for seasonal needs. An established line of credit assures the borrowing cooperative that money will be available when required.

The extension of sound credit is essential to the success of the Banks, the borrowing cooperatives, and the members of those cooperatives. No one benefits when a cooperative cannot meet its obligations. There are five basic factors pertinent to a sound loan. In addition to the eligibility requirements, these factors are the determinants of credit extension.

1. *The cooperative as a business organization.* A prerequisite for a sound loan is an applicant of established integrity. The management and board must be responsible and cooperative. The importance of this factor is of such significance that it can affect the weight placed on all other credit factors.

2. *Financial position and progress.* Financial responsibility reflects the ability of the cooperative to meet its obligations, continue its business operations, and protect the Bank against undue risk. The total assets controlled by the cooperative, the equity owned, the direct and contingent liabilities, and history of earnings are important measures of financial responsibility.

3. *Repayment capacity.* Determining repayment capacity requires an analysis of cash flow history and a projection of cash flow in the future. The projection reflects cash generation from operations and other sources and must be sufficient to meet all obligations and provide a remainder for contingencies.

HOW TO GET A LOAN

4. *Purpose of the loan.* A loan should be constructive in its amount and purpose and practical as to repayment terms for both the cooperative and the Bank. It should also have a direct bearing on the service to be provided the members of the cooperative or the enhancement of their well-being.

5. *Collateral offered as security.* Collateral needs are indicated by the strengths and weaknesses of all other credit factors. The requirement of collateral and security taken must reasonably protect the Bank but leave the cooperative in a position to constructively manage its business affairs.

In summary, a sound loan is one made to a responsible cooperative of established integrity which has the ability to use the funds constructively and repay the loan within a reasonable period of time.

In general, the steps required to obtain a loan are as follows.

1. The cooperative contacts the Bank and outlines its credit requirements.

2. The request is considered by the Bank and, if approved, a loan agreement and other necessary legal papers are forwarded to the cooperative.

3. The officers of the cooperative so authorized sign the loan documents and return them to the Bank.

4. Loan funds are then advanced as requested by the cooperative under terms of the loan agreement.

REPAYING LOANS

Repayment plans are adapted to the type and requirements of the cooperative financed. Loans to finance commodities in storage are generally repaid from sales proceeds of the collateral. Seasonal or short term operating capital loans are usually repayable within 18 months. Term loans to finance facilities and operations are generally repaid in installments over a period of years.

Term loan repayment programs are sometimes related to volume, such as a fixed sum for each unit of product sold or a percentage of gross sales. Any loan may be repaid before maturity without penalty.

INTEREST RATES

Interest rates and interest rate policies are established by the board of directors of each Bank. They vary among the Banks, depending generally on the type or term of loan. They are, however, at the lowest possible level consistent with sound operating policies. Seasonal or short term loans usually carry a lower rate of interest than long term loans. Interest is charged on the amounts advanced for the actual time the funds are outstanding to the borrower.

Since the rates are related, for the most part, to the cost of money the Bank borrows in the open market, they fluctuate occasionally as material changes occur in money market rates. In the agreement signed by the borrower, most of the Banks include an adjustment clause permitting changes in the interest on both outstanding loan balances and new advances. The Banks generally follow the practice of raising or lowering interest rates when the cost of money to them increases or declines.

SAVINGS OF BANKS ACCRUE TO BORROWERS

As cooperatives, the Banks allocate and distribute their savings to borrowers on a patronage basis. At the end of each fiscal year, after providing for all operating expenses, including reasonable valuation reserves and losses in excess of such reserves, the savings of the Banks are shared on a patronage basis by their borrowers. Savings may be distributed in cash and in equity capital.

CAPITAL STRUCTURE OF THE BANKS

The Banks for Cooperatives are owned by the cooperatives they serve.

Cooperatives acquire equity capital in their district Bank in four ways.

1. A cooperative purchases one or more shares of voting stock at a par value of $100 when it obtains its first loan.

2. Additional shares of stock are purchased by a cooperative in proportion to the interest paid on loans.

3. A portion of the annual net savings of a Bank may be distributed to borrowers in stock as patronage refunds.

4. A portion of the annual net savings may also be distributed as allocated surplus. Allocated surplus, under certain conditions, may be distributed to borrowers in stock.

The Banks' fiscal programs are designed so that the amount of capital provided by each borrower is related to the borrower's use of the Bank. Capital purchased directly and amounts distributed as stock or allocated surplus are ultimately returned to the borrowers, usually on a revolving plan basis.

A Bank for Cooperatives may issue other classes of stock for investment purposes. Dividends on such stock may not exceed 8 percent per year.

OBTAINING LOAN FUNDS

The Banks for Cooperatives obtain the major portion of their loan funds through the sale of securities backed by the notes of borrowers. These securities are sold through a Fiscal Agency in New York City with the aid of a nationwide group of securities dealers.

Through the issuance of these securities, the Banks provide cooperatives with direct access to the Nation's money markets which helps to assure an adequate supply of dependable credit.

Supplementary funds are obtained through borrowings from other Farm Credit Banks, commercial banks, and other financial institutions.

OTHER SERVICES

The principal function of the Banks for Cooperatives is to provide cooperatives with credit. In addition, their staffs are available for advice and counseling with borrowers or prospective borrowers. Examples of areas in which counseling might be sought include budgeting, long-range planning, operating trend analysis, credit standards, and auditing practices. In legal matters, the Bank's attorney may, if asked, work with the legal staff of a cooperative in an advisory capacity.

The Banks also consult with borrowers on mergers or consolidations, participate in training programs involving directors and personnel of cooperatives, and assist groups interested in forming new cooperatives.

COMPLETING THE CREDIT SERVICE TO AGRICULTURE

In each of the twelve Farm Credit districts throughout the United States there is a Bank for Cooperatives, a Federal Land Bank, and a Federal Intermediate Credit Bank. These Banks provide agriculture with a complete and well-rounded credit service.

The Federal Land Banks, through more than 500 local Federal Land Bank Associations, make long term loans to farmers, rural homeowners, and selected farm-related businesses. These loans are secured by first liens on real estate.

The Federal Intermediate Credit Banks make loan funds available for some 400 Production Credit Associations and other financing institutions. The Production Credit Associations make short and intermediate term loans to farmers, rural homeowners, producers or harvesters of aquatic products, and selected farm-related businesses.

BORROWERS SHARE SYSTEM CONTROL

Agricultural producers control the local Federal Land Bank Associations, Production Credit Associations, and cooperatives by directly electing their boards of directors.

The boards of the local Land Bank Associations and Production Credit Associations and stockholders of the Bank for Cooperatives each elect two members to the district Farm Credit board for 3-year terms. A seventh member is appointed by the Governor of the Farm Credit Administration. This board sets the policies for the district Bank for Cooperatives, Federal Land Bank and Federal Intermediate Credit Bank.

The board of directors of the Central Bank for Cooperatives is composed of one director elected by each district Farm Credit board and a thirteenth member appointed by the Governor.

Borrowers also have a voice at the national level through their representatives on the Federal Farm Credit Board. This Board, which serves part-time, is composed of one member from each of the 12 Farm Credit districts appointed by the President of the United States for 6-year terms and one member who represents the Secretary of Agriculture. The Federal Farm Credit Board sets policies for the Farm Credit Administration. The Board appoints the Governor who is the chief executive of the Farm Credit Administration. The Farm Credit Administration is an independent agency within the executive branch of the Government. Its purpose is to coordinate, supervise, and examine the 37 district Banks, the Land Bank Associations, and Production Credit Associations. This agency, the district Banks, the Central Bank for Cooperatives, and the local Associations are known collectively as the Farm Credit System.

HISTORICAL DEVELOPMENT OF THE FARM CREDIT SYSTEM

The Farm Credit Act of 1933 provided for the organization and initial capitalization of the 13 Banks for Cooperatives.

Prior to this, the Federal Farm Loan Act of 1916 had provided for the establishment and initial capitalization of the 12 Federal Land Banks. Also authorized by the Act were the local Federal Land Bank Associations, then called National Farm Loan Associations. The 12 Federal Intermediate Credit Banks were established and capitalized in 1923.

The Farm Credit Act of 1933 also authorized farmers to organize local Production Credit Associations. An executive order of the President, issued in March of 1933, created the Farm Credit Administration.

The Banks for Cooperatives were initially capitalized by the Federal Government and remained largely owned by the Government until the Farm Credit Act of 1953 was passed. This Act, which had the endorsement of farmers and cooperatives, provided for a means of control of the entire Farm Credit System by its users and paved the way for the ultimate retirement of all Government capital in the System. Additional legislation enacted in 1955, 1966, and 1968 further emphasized ownership of the System by its users, and that goal was realized December 31, 1968.

The Farm Credit Act of 1971 recodified all the prior laws governing the Farm Credit System, modernized the functions of the System, broadened its lending authorities somewhat, and brought decision making closer to the borrowers. It is now the Act governing the complete cooperative Farm Credit System.

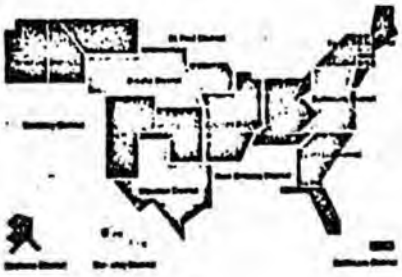
A LOOK TO THE FUTURE

As farms become fewer, but larger and more complex, and as farmers become more efficient while requiring more capital, the role of cooperatives in the total farm economy will increase.

Cooperatives themselves are broadening the scope of operations and providing greater service to their members. Aggressive, expanding cooperatives, working together, may be the best continuing hope for agriculture as we know it today.

The Banks for Cooperatives, as the major suppliers of credit to American cooperatives, will continue to provide credit and whatever services are necessary to assure the continued success and growth of these farmer-owned and controlled business organizations.

BANKS FOR COOPERATIVES AND TERRITORY SERVED BY EACH



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RESOLUTION OF THE BOARD OF DIRECTORS

OF THE SPOKANE BANK FOR COOPERATIVES

LOAN POLICIES AND GUIDELINES FOR FISHERIES COOPERATIVES

WHEREAS, The Farm Credit Act of 1971 provides that Banks for Cooperatives are authorized to make loans to the cooperatives of producers or harvesters of aquatic products and it is the intent of the Twelfth District Farm Credit Board to comply with the authority set forth in the law and to establish policy within its framework,

NOW, THEREFORE, BE IT RESOLVED, That the extension of credit to cooperatives of producers and harvesters of aquatic products by the Spokane Bank for Cooperatives shall be within established guidelines consistent with sound and constructive credit principles.

Cooperative Considerations and Guidelines:

1. Economic:

   The fishery served should be well suited to the production of the commodity being marketed or for which production supplies are required, in order to provide reasonable assurance of a sufficient volume of business for low cost efficient operation.

   There shall be an economic need for the service.

2. The Membership:

   There must be member support. Patrons are expected to have sufficient membership equity or other membership interest in the business to indicate the likelihood of continued patronage and active backing to the venture.

The general operating abilities and financial circumstances of the patrons should be such as to give reasonable assurance of continued production of the commodities handled by the association or continued use of the service rendered by it.

It is desirable that as large a percentage as possible of the total business be furnished by the members.

3. Association Fiscal Policies:

The Board of Directors should have broad discretionary powers in the administration of the cooperative's affairs. The corporate papers must be written to give such authority and provide a sound foundation for a successful and lasting cooperative business. They should not contain restrictive provisions to the extent that they will impair the freedom of the Board and Management to exercise their best judgment.

The cooperative must have ample authority to withhold margins or to levy retains. In general, it is desirable that such authority be not limited but left to the discretion of the Board. The Bank subscribes to the view that an association's capital structure and its operating practices, as they affect margins and capital retains, should be such that member-ownership, for the most part, can and will be revolved over a reasonable period of time.

Investment by members and others should be evidenced by credits of a capital nature, subject to revolving at the Board's discretion.

the Board.

Accelerated retirement of equities of members because of discontinuance of fishing, or for other reasons, should not be mandatory.

Bank Policies and Guidelines:

1. Eligibility (Legal):

The borrowing cooperative shall meet the following eligibility requirements:

a. Operate on a cooperative basis for the mutual benefit of its members;

b. Be primarily engaged in the processing, handling or marketing of aquatic products or purchasing, processing, distributing or furnishing aquatic supplies;

c. Maintain at least 80% of voting control by producers or harvesters of aquatic products or eligible cooperatives;

d. Do at least 50% of its annual volume (in dollars) with members or eligible cooperatives;

e. Limit voting rights to one vote per member or limit dividends on capital to 10% or less.

2. General:

Loans will be approved for those cooperatives which operate on a sound and businesslike basis and where there is reasonable prospect that the loan can be repaid in the normal operation of the business.

When unusual business or operating hazards are present because of the nature of the industry, economic conditions, new ventures, or changing technology, credit standards shall be administered to assure that the cooperative owners carry a proportionately greater share of the risk.

Loan approvals, in all cases, are accompanied by certain necessary controls including prior approval by the Bank to substantial additions to facilities or other fixed assets, the pledging or mortgaging of assets, the declaration or payment of patronage or other dividends and the retirement of capital stock or other capital equities.

In the administration of loans outstanding the Bank may advise and counsel with the borrowing association but not interfere in management and control as long as the Bank's interest are not in jeopardy.

3. Term Loans:

Amount of Loan:

The term loan should be adequate to pay off all term creditors at the discretion of the Bank and assure adequate working capital to finance the operation at the low point.

Security:

A first mortgage on facilities being financed is required for a facility loan.

The policy is to require security also on term operating loans. This security may be a real estate mortgage or an appropriate assignment or a lien on assets.

Repayment:

A term loan is approved only if there is a reasonable prospect of repayment from future margins or retains.

4. Seasonal Operating Loans:

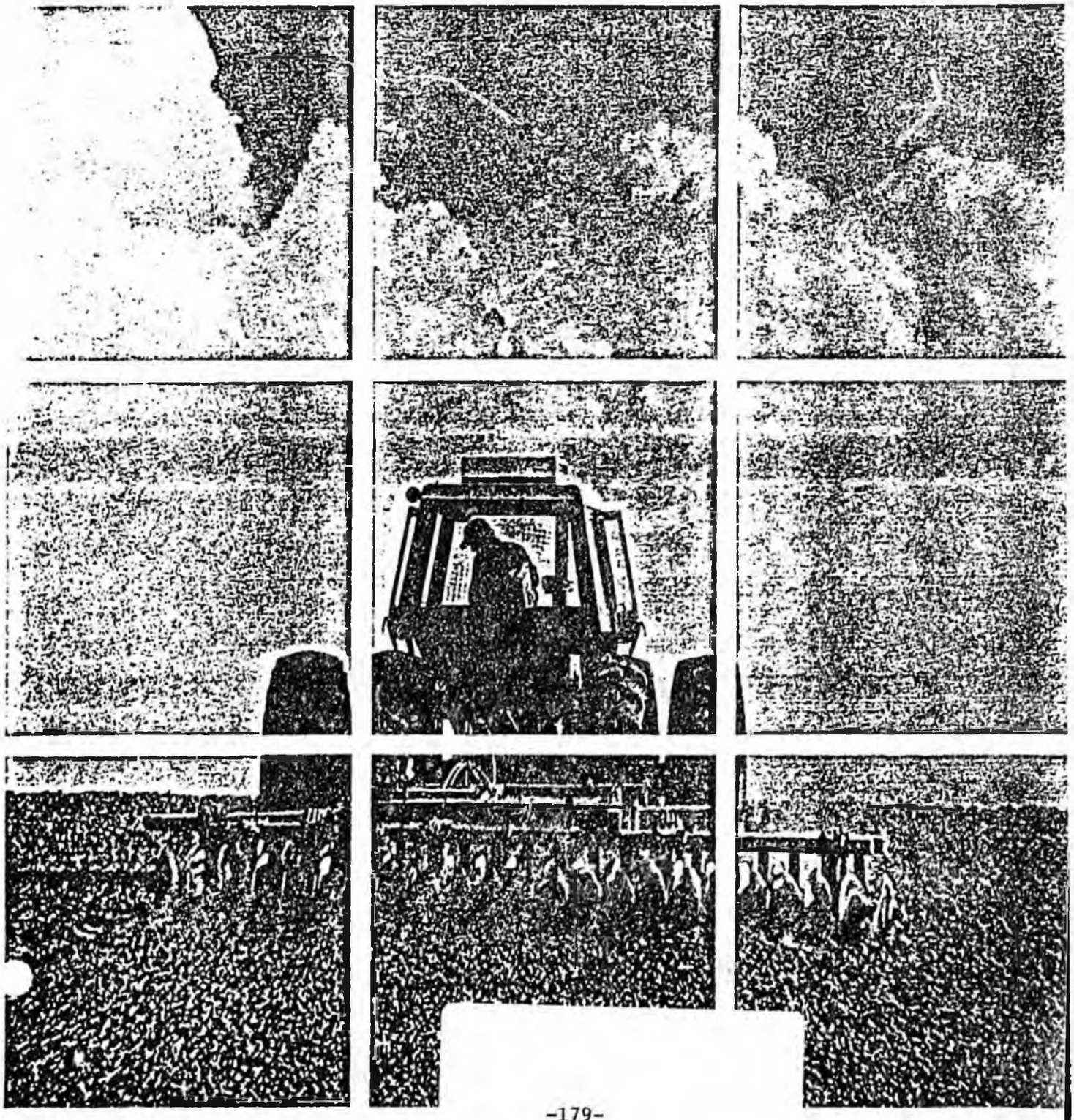
Such loans are ordinarily made for a period of twelve to eighteen months to finance peak operations requirements. Repayment is expected as products are marketed, production supplies sold, accounts reduced or charges collected. The association should have adequate working capital so that full repayment of the loan may be made at the low point of the operation.

Generally security is required for seasonal operating loans. This may be a real estate mortgage or an appropriate assignment or lien on other assets.

In exceptional cases where the Bank is supplying total borrowed funds and where management, financial circumstances and operating history are sufficiently favorable, a loan may be made on an unsecured basis.

Production Credit Associations

How They Operate



Agriculture in the United States is constantly growing and changing. It is a dynamic industry, the largest in the Nation and perhaps the most essential.

To continue to make the American people the best fed at the lowest real cost of any people in the world, our producers of food and fiber use the latest developments in science and technology. To gain economies of scale, they have expanded their operations, utilizing more land together with larger and more expensive equipment and facilities.

All of this takes vast amounts of capital. The average capital investment required for each farm worker, for example, is more than twice that required for workers in manufacturing industries.

To keep pace, agricultural producers need ever-increasing amounts of capital. A large portion of this is borrowed capital —credit.

Those who harvest the sea also have a need for credit, as do rural residents and persons who provide farmers with the on-the-farm services they need for efficient operations.

Credit of this kind, however, is frequently highly specialized credit and must be tailored to fit the needs of individuals.

This booklet is about an important source of such credit, a source owned by the borrowers themselves. It is about the Nation's Production Credit Associations, how they operate, and why they are specialists in filling the unique credit requirements of their borrowers.

There are more than 400 Production Credit Associations throughout the United States serving borrowers through some 1,500 full time offices. They provide short and intermediate term credit and closely related services to farmers and ranchers, rural residents, selected farm related businesses, and producers or harvesters of aquatic products.

WHO BORROWS FROM PCAs

Production Credit Associations may make loans with terms of up to 7 years in length to any of the following.

1. *Farmers and ranchers.* A farmer or rancher is one who owns agricultural land or is engaged in the production of agricultural products, including aquatic products under controlled conditions.

The Associations may make loans to farmers and ranchers for any agricultural purpose or for other requirements. Because the Associations are primarily agricultural lenders, the amount of credit extended for non-agricultural purposes is affected by the borrower's agricultural assets.

2. *Legal entities engaged in the production of agricultural products.* A legal entity is any partnership, corporation, estate, trust or other entity which has a legal authority to conduct a business. Eligibility of a legal entity is dependent on the following.

a. The percentage of the value or number of shares of its outstanding voting stock owned by those conducting the farming or livestock operation.

b. The percentage of the value of its assets related to the production of agricultural products.

c. The percentage of its income originating from the production of agricultural products.

3. *Producers or harvesters of aquatic products.* A producer or harvester of aquatic products is someone engaged in the production or harvesting of aquatic products for economic gain in open waters under uncontrolled conditions.

Legal entities engaged in the production or harvesting of aquatic products are also subject to the same conditions as those engaged in farming or ranching operations.

4. *Rural residents.* A rural resident is one who either owns and occupies a home located in a rural area or who soon intends to. Such homes are defined as single family, moderate priced dwellings in open areas primarily devoted to agriculture and in towns and villages where the population does not exceed 2,500 persons. Mobile homes may also be considered as rural residences under certain conditions.

Loans may be made to buy, build, improve, repair, refinance, or remodel a rural home.

5. *Farm related businesses.* A farm related business is one which furnishes custom type services performed on the farm and directly related to farm operating needs.

Loans may be made to farm related businesses for working capital, equipment or operating needs. Such loans, however, are confined to financing those assets or business activities directly related to custom type services performed on the farm.

6. *Combined operations.* Where an applicant's operations include a combination of farming, producing or harvesting aquatic products, or a farm related business, eligibility can be determined on the basis of the criteria for either or any combination of these operations.

HOW TO APPLY FOR A PCA LOAN

To apply for his first loan a prospective borrower contacts the Production Credit Association serving the county in which his operation is located. He then discusses his plans with a PCA representative and fills out a formal loan application.

Working with the PCA, the prospective borrower outlines his operation, determines how much money he will need, and considers repayment methods. He also furnishes the PCA with financial information, just as any other businessman would do.

A representative of the PCA looks over the prospect's business operation to obtain additional information helpful in assuring the repayment schedule is realistic. The prospect and the PCA representative then prepare a cash flow projection —an estimate of income and expenses—and work out the terms of the loan.

This entire process is beneficial because it gives the prospect an accurate picture of his operation. It also makes it possible for the PCA to provide the kind of credit and service needed.

After a borrower becomes more familiar with his Association and the Association knows his operation, some of these initial procedures may not be necessary. For the established PCA borrower, a loan is almost as near as his telephone. Most Associations have adopted procedures which permit over-the-counter service to borrowers whose records are satisfactory. The initial procedure, however, protects both the PCA and the borrower.

Recognizing that many borrowers have recurring credit needs at certain times of the year, many PCAs have instituted budget or line of credit financing plans. Under these plans, a borrower arranges in advance for a loan that will adequately cover all his financial requirements for an entire season or agricultural cycle. He draws the money as he needs it and repays it according to a pre-arranged schedule.

There is no interest on any part of a loan until the money is actually drawn. When any part of the loan is repaid, no further interest is charged on the portion repaid. In short, a borrower pays interest on each dollar used only for the number of days he uses it. All interest charges and loan service fees, if any, are clearly explained to the borrower.

BORROWERS INVEST

Each borrower from a Production Credit Association invests in that Association to help capitalize it.

A farmer, rancher, or producer or harvester of aquatic products buys Class B (voting) stock in his Association in proportion to the amount of his loan. This is usually just added to the amount of the loan so he does not need to have the cash available.

Members frequently buy larger amounts of stock to help capitalize their Associations so they can better fill the growing credit needs of borrowers.

When their loans are repaid, members often retain their Class B stock and use it again when they obtain another loan. If a member doesn't borrow for two years, his stock is converted to Class A (non-voting) stock. By holding their stock as an investment, members strengthen the financial structure of their Associations. The conversion to non-voting stock, however, keeps the control of the Association in the hands of those who are active borrowers. Of course, a member who does not have a loan outstanding may list his stock with the Association for disposal.

Borrowers other than farmers, ranchers, or producers or harvesters of aquatic products also help capitalize the Association through the purchase of participation certificates as conditions to their loans. They buy these certificates in amounts proportionate to their loans. The participation certificates do not carry voting rights.

PCAs ARE CREDIT COOPERATIVES

Production Credit Associations are controlled by boards of directors elected by and from their voting members. Each member of the PCA has one vote regardless of the amount or number of shares of stock he owns. The Associations are, therefore, credit cooperatives owned and controlled by their members.

Because the boards of the Associations are composed of people who live in the area and who are active borrowers, they know what it takes to operate successfully in their particular localities.

Each board sets the overall policies for its Association as provided for in its bylaws and hires a manager to conduct the day-to-day business operations. He may carry the title of manager, secretary-treasurer, or president and may have several people on his staff depending on the size of the Association and its business volume. Many large Associations have branch offices for the convenience of their members.

BORROWER OWNED AND BORROWER ORIENTED

The board must also see that the Association is operated in an efficient manner in accordance with established policies, regulations, and the law governing PCA operations and activities.

In addition to setting policies, hiring management, and being responsible for the operation of the Association, the board may also appoint various committees and delegate loan closing authority to management. However, even if this authority is delegated, the responsibility still rests with the board.

Because they are actually owned by those who use them, Production Credit Associations have been pacesetters in attempting to provide credit on terms suited to their borrowers' repayment ability.

CREDIT FACTORS

For example, a farmer who needs production credit to buy seed and fertilizer may want to arrange his payments to coincide with his marketing schedule. Meanwhile, he may have limited income and need additional funds each month for living expenses.

A dairy farmer, on the other hand, may want to arrange his loan payments to coincide with his monthly milk checks. A rancher or cattle feeder may require credit in yet another form.

But no matter what the particular credit requirements of the borrower are, the directors and manager of the local PCA are familiar with them.

The terms of a PCA loan may vary depending on the situation. A borrower may obtain any amount of credit he needs if, in the judgment of the loan committee, his record, financial condition, farm operation, and managerial skill indicate he can and will repay it.

Production Credit Associations base credit decisions on five basic factors. These factors are considered pertinent to granting a sound loan.

1. *The individual or entity.* A prerequisite for a sound loan is an applicant of established integrity. Responsible management must be evident and must be willing to cooperate with the PCA. This factor is so important that it can affect the weight placed on all other credit factors. Analysis includes a careful evaluation of character, experience, record, and prospects of management in finance and operation.

2. *Financial position and progress.* Financial responsibility reflects the ability to meet obligations, continue business operations, and protect the PCA against undue risk. The applicant's total assets controlled, equity owned, contingent liabilities, and history of earnings are significant measures of financial responsibility.

3. *Repayment capacity.* The determination of repayment capacity requires an analysis of cash flow history and projection. A cash flow projection reflects cash generation from the applicant's operation and all other sources. Generally the cash flow should be sufficient to meet all obligations and provide a remainder for contingencies.

4. *Basis of approval.* Loans must be constructive in their amount and purpose and practical as to repayment terms for both the borrower and the PCA. Loan conditions such as loan agreements, personal liability, additional collateral, insurance, etc., are required as conditions warrant.

5. *Collateral.* Collateral needs are dictated by the strengths and weaknesses of other credit factors. The collateral taken shall reasonably protect the lender, provide the necessary control of equity and repayment, and leave the borrower in a position to constructively manage his business.

The prime purpose and reason for these five credit factors is to assure loans that will be beneficial to the borrower and sound business for the PCA.

OTHER SERVICES

In addition to providing credit and financial advice, many Production Credit Associations provide borrowers with other services.

Most Associations offer credit life insurance giving borrowers the peace of mind that comes with knowing their loans will be repaid if something were to happen to them.

In areas where hail damage is a hazard, some PCAs make it possible for their members to buy hail insurance, thus protecting both the borrower and the Association against loss.

By working with cooperatives and other dealers, many PCAs have made credit available at the point of sale enabling farmers to obtain needed supplies with time-saving convenience. This has also helped cooperatives by relieving them of the need to provide credit.

Many Associations are offering electronic farm recordkeeping services which provide members with accurate records and basic information helpful in making informed management plans and decisions.

These and other services show that Production Credit Associations are responsive to the needs of their members.

SAVINGS RETURNED TO BORROWERS

As credit cooperatives, Production Credit Associations share their savings with their borrowers. Savings are returned to borrowers through dividends on stock and also through patronage refunds in proportion to the interest paid on loans. Patronage refunds may be paid in cash, stock, or participation certificates.

What would be earnings in a profit motivated business become savings to borrowers from Production Credit Associations and have the effect of reducing interest paid on loans.

FEDERAL INTERMEDIATE CREDIT BANKS

In each of the 12 Farm Credit districts in the United States, there is a Federal Intermediate Credit Bank. These Banks are the chief source of loan funds for the Production Credit Associations and may participate with the Associations on some loans. Their primary function, however, is to provide loan funds to the PCAs and supervise some of their operations. They also discount notes of farmers given to certain other financing institutions serving agriculture.

The FICBs obtain their loan funds through the sale of securities to investors in the Nation's money markets. These securities are marketed through a fiscal agent in New York City with the assistance of a nationwide group of securities dealers.

The Banks make every effort to keep the cost of loan funds to PCAs as low as possible. These rates, however, depend to a large extent on the rates the Banks have to pay on their securities.

The total net earnings or savings of the Banks, after paying all operating expenses, are first used each year to build and maintain required legal reserves, which are allocated to borrowers on a patronage basis. The remaining net savings are returned to the PCAs and other financing institutions using the Banks as patronage refunds.

In addition to acting as "wholesalers of credit" to PCAs, the Federal Intermediate Credit Banks also supervise them and assist them.

The supervisory functions are designed to help the Associations maintain sound and constructive credit services, to protect the investments borrowers have in the Associations, and to protect the investments made in the securities sold to obtain loan funds.

The Banks also assist the Associations by providing training for officers and directors to keep them abreast of the latest techniques and practices of credit analysis and management. The Banks offer advice and counsel on the most effective educational and promotional programs to involve members more closely in the affairs of their Associations. The Banks analyze loan programs of the Associations, help them set up their budgets, aid them in determining long range financial goals, and approve some of the larger loans.

Perhaps the single most important function performed by the Banks is that they give borrowers—through the PCAs—access to the Nation's money market and assure them of a dependable source of credit.

HISTORICAL DEVELOPMENT OF THE FARM CREDIT SYSTEM

The Production Credit Associations and Federal Intermediate Credit Banks constitute one of the three parts of the Farm Credit System. The other two are the Federal Land Banks and Federal Land Bank Associations and the Banks for Cooperatives. The System had its beginning with the passage of the Federal Farm Loan Act of 1916 which authorized the establishment and initial capitalization of the 12 Federal Land Banks. Also authorized by the Act were local National Farm Loan Associations, now called Federal Land Bank Associations.

The Land Banks were established to fill a need for a permanent and dependable source of long term agricultural credit. The Associations service loans made by the Banks.

The Land Banks now make loans of from 5 to 40 years secured by first liens on real estate to farmers and ranchers, rural residents and selected farm related businesses. These loans are made through more than 500 local Federal Land Bank Associations.

The agricultural depression of the 1920's led to the Farm Credit Act of 1923 which authorized the establishment of the 12 Federal Intermediate Credit Banks. They were intended to discount the short and intermediate term notes of farmers given to various financing institutions. However, these institutions did not avail themselves of the services offered by the Credit Banks to the extent expected and a credit gap still existed.

To help close that gap Congress, in 1933, authorized the establishment of local Production Credit Associations which could discount with the FICBs. In effect, the PCAs became the retail outlets for credit available at wholesale from the FICBs.

In that same year, Congress authorized the establishment of 13 Banks for Cooperatives to provide a complete loan service to farmers' marketing, supply, and business service cooperatives.

Twelve of these are district Banks serving the needs of cooperatives in their respective territories. The thirteenth is the Central Bank for Cooperatives which participates with the district Banks on larger loans.

An Executive Order of the President created the Farm Credit Administration and all Farm Credit institutions were placed under its supervision.

Like the Federal Land Banks, the Federal Intermediate Credit Banks, Production Credit Associations, and Banks for Cooperatives were initially capitalized by the Government. Later changes in the laws governing these institutions paved the way for them to repay the Government's investment and all are now completely owned by their borrowers.

Present authority for the activities of the Banks and Associations may be found in the Farm Credit Act of 1971 which supersedes all previous laws governing them.

BORROWERS SHARE SYSTEM CONTROL

The borrowers who share ownership of the Banks and Associations of the Farm Credit System have a voice in the control of that System from the local to national levels.

They elect the boards of directors of the local Production Credit Associations. They also elect the boards of the Federal Land Bank Associations and of the cooperatives of which they are members.

The boards of directors of the Production Credit Associations, Federal Land Bank Associations, and cooperatives owning stock in the Bank for Cooperatives in each Farm Credit district each elect two members of the district Farm Credit board. The seventh member is appointed by the Governor of the Farm Credit Administration with the advice and consent of the Federal Farm Credit Board. The district directors serve as the boards for all three Banks—Federal Land Bank, Federal Intermediate Credit Bank, and Bank for Cooperatives—in their district and as a district Farm Credit board. They set the policies for all three Banks as well as for coordinated services of the three Banks.

The board of directors of the Central Bank for Cooperatives is composed of one director from each Farm Credit district who is elected by the district Farm Credit board. A thirteenth member is appointed by the Governor of the Farm Credit Administration with the advice and consent of the Federal Farm Credit Board.

The boards of the local Production Credit Associations, Federal Land Bank Associations, and cooperatives holding stock in the Bank for Cooperatives in each district also make nominations for the President of the United States to consider in making appointments to the Federal Farm Credit Board. One member is appointed from each district for a six-year term and is not eligible for reappointment. Since the establishment of the Federal Farm Credit Board in 1953, all members have been appointed from among nominees. A thirteenth member of the Federal Farm Credit Board is appointed by the Secretary of Agriculture and serves at his pleasure.

The Federal Farm Credit Board serves part time and is the national policy making body for the Farm Credit System. It is responsible for the direction and supervision of the Farm Credit Administration. The Board appoints the Governor who is the chief executive of the Farm Credit Administration, the supervisory agency for the Farm Credit System.

The Banks and Associations of the System are supervised and examined by an agency of the Federal Government because they hold Federal charters. However, the unique method of democratic control by the borrowers who own and use the System assures that the supervisory body is responsive to their needs within the Federal law under which it operates.

FEDERAL INTERMEDIATE CREDIT BANKS AND TERRITORY SERVED BY EACH

Federal Intermediate Credit Bank of Springfield
Farm Credit Building
67 Hunt Street
Agawam, Massachusetts 01001
Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey

Federal Intermediate Credit Bank of Baltimore
Farm Credit Building
St. Paul and 24th Streets
Baltimore, Maryland 21218
Pennsylvania, Delaware, Maryland, Virginia, West Virginia, District of Columbia, Puerto Rico

Federal Intermediate Credit Bank of Columbia
Federal Land Bank Building
1401 Hampton Street
Columbia, South Carolina 29201
North Carolina, South Carolina, Georgia, Florida

Federal Intermediate Credit Bank of Louisville
Farm Credit Banks
Riverview Square
Louisville, Kentucky 40202
Ohio, Indiana, Kentucky, Tennessee

Federal Intermediate Credit Bank of New Orleans
Farm Credit Banks Building
860 St. Charles Avenue
New Orleans, Louisiana 70130
Alabama, Mississippi, Louisiana

Federal Intermediate Credit Bank of St. Louis
1415 Olive Street
St. Louis, Missouri 63103
Illinois, Missouri, Arkansas

Federal Intermediate Credit Bank of St. Paul
375 Jackson Street
St. Paul, Minnesota 55101
Michigan, Wisconsin, Minnesota, North Dakota

Federal Intermediate Credit Bank of Omaha
Farm Credit Building
206 South 19th Street
Omaha, Nebraska 68102
Iowa, Nebraska, South Dakota, Wyoming

Federal Intermediate Credit Bank of Wichita
Farm Credit Banks Building
151 North Main
Wichita, Kansas 67202
Oklahoma, Kansas, Colorado, New Mexico

Federal Intermediate Credit Bank of Houston
Federal Land Bank Building
430 Lamar Avenue
Houston, Texas 77002
Texas

Federal Intermediate Credit Bank of Sacramento
3636 American River Drive
Sacramento, California 95825
California, Nevada, Utah, Arizona, Hawaii

Federal Intermediate Credit Bank of Spokane
W. 705 First Avenue
Spokane, Washington 99204
Washington, Oregon, Montana, Idaho, Alaska

APPENDIX D

COMMUNITY INFRASTRUCTURE COMPARISON, page 1 of 3

	REGION	POPULATION	DOCKS	SCHOOLS	HOUSING	HEALTH	POLICE	FIRE-FIGHTERS	FIRE INS. CODE	WATER	SEWER	ELECTRICITY	TELEPHONE	COMMUNITY HALL	LIBRARY	TRAD. SUBSISTENCE AREA POSSIBLE OCS ACTIVITY		MAIN INDUSTRY
Alakanuk	Calista	495	N.A.		47 units 2 vac	PHS visit	Trooper from St. Mary	27 volunteer	10	N.A.	honey-bucket	diesel	earth statior	yes	no	yes		N.A.
Angoon	Sealaska	400	city dock	Elem H.S.	84 units 8 vac	1 LPN PHS visit	1 local Trooper fr.Sitka	23 volunteer	10	creek	outfall	diesel	yes	yes	no	yes	no	fisheries
Cold Bay	Aleut	280	N.A.	Elem	75 units 0 vac	1 RN	Trooper from Sand Pt.	27 volunteer	10	wells	outfall	diesel	yes	N.A.	yes	yes		gov't
Cordova	Chugach	2500	2 city dock	Elem H.S.	523 units 50 vac	hospital clinic	6 local 1 trooper	20 volunteer	10	lake, falls& wells	sec. treatment	diesel	yes	N.A.	yes	yes	yes	fisheries gov't
Craig	Sealaska	467	2	Elem H.S.	82 units 8 vac	clinic PHS visit	2 local 1 trooper	15 volunteer	6-9	wells	aeration	diesel	yes	N.A.	yes	yes	no	fisheries forestry
Eek	Calista	195	none	Elem H.S.	40 units 4 vac	clinic PHS visit	Trooper from Bethel	10 volunteer	9	well, river, rain	privies, septic tanks	diesel	radio phone	N.A.	no	yes		N.A.
Egegik	Bristol Bay	150	cannery dock	Elem	35 units 4 vac	clinic PHS visit	Trooper from Naknek	N.A.	10	wells	privies, honey-bucket	diesel	radio phone	N.A.	no	yes		fisheries
Emmonak	Calista	502	none	Elem H.S.	93 units 13 vac	clinic PHS visit	Trooper from St. Mary	N.A.	10	N.A.	N.A.	diesel	radio phone	N.A.	no	yes		N.A.
Goodnews Bay	Calista	228	none	Elem	41 units 5 vac	clinic PHS visit	Trooper from Bethel	10 volunteer	10	wells	outfall	diesel	radio phone	yes	no	yes		N.A.
Homer	Cook Inlet	1243	city dock	Elem H.S.	N.A.	hospital clinics 2 doctors	4 local 1 trooper	18 volunteer	8-9	wells	C.L. & oxidation	diesel	yes	yes	yes	no		fisheries trade
Hydaburg	Sealaska	214	city dock	Elem H.S.	63 units 4 vac	clinic PHS visit	Trooper from Craig	30 volunteer	10	creek	outfall	diesel	yes	yes	no	yes		fisheries
Juneau	Sealaska	16600	5	Elem H.S.	4223 units 296 vac	hospital clinic 16 doctors	32 local 11 trooper	19 pd. 146 volunteer	5-6	reservoir, wells	secondary treat.	hydro & diesel	yes	N.A.	yes	yes		gov't

COMMUNITY INFRASTRUCTURE COMPARISON, page 2 of 3

	REGION	POPULATION	DOCKS	SCHOOLS	HOUSING	HEALTH	POLICE	FIRE FIGHTERS	WATER	SEWER	ELECTRICITY	TELEPHONE	COMMUNITY HALL	LIBRARY	TRAD. SUBSISTENCE AREA	POSSIBLE SITE OF OCS ACTIVITY	MAIN INDUSTRY
Kake	Sealaska	551	city dock	Elem H.S.	165 units 1 vac	PHS visit	Trooper fr. Petersburg	10 volunteer	creek	aeration	diesel	yes	N.A.	yes	yes	no	N.A.
Kenai	Cook Inlet	12000	cannery dock	Elem H.S.	1176 unit 204 vac	3 doctors	7local trooper fr Soldotna	9 pd. & volunteer	artesian wells & wells	tertiary treat	diesel	yes	N.A	yes	[illegible]	yes	oil fisheries
Ketchikan	Sealaska	7532	3	Elem H.S.	2315 units 147 vac	hospital clinic doctors	22 local 5 trooper	11 pd. 147 volunteers	lakes	outfall	diesel &hydro	yes	yes	yes	yes	no	fish. forest gov't
Kipnuk	Calista	325	none	Elem	52 units 1 vac	clinic PHS visit	trooper fr. Bethel	7 volunteer	well	privies &septic tanks	diesel	yes	yes	no	yes		
Klawock	Sealaska	290	city dock	Elem	52 units 4 vac	RN PHS visit	trooper fr. Craig	12 volunteers	creek	outfall	diesel	yes	yes	no	yes	no	
Kodiak	Koniag	3923	3	Elem H.S.	1200 units 99 vac	hospital doctors	21 local	4 pd. 28 volunteer	creek	outfall	diesel	yes	N.A	yes	yes	yes	fish.
Kongiganak	Calista	190	none	Elem H.S.	32 units 5 vac	clinic PHS visit	trooper from Bethel	5 volunteer	lakes, streams, wells	privies &septic tanks	diesel	radio phone	N.A.	no	yes		N.A.
King Cove	Aleut	338	cannery dock	Elem H.S.	61 units 0 vac	clinic PHS visit	trooper from Sand Pt.	N.A.	reservoir	outfall	diesel	N.A.	N.A.	no	yes	yes	fish.
Naknek	Bristol Bay	350	cannery docks	Elem H.S.	48 units 3 vac	PH nurse 2 RN	1 local 1 trooper	12 volunteer	wells, lake	septic tanks privies	diesel	yes	yes	yes	yes		fish.
Ninilchik	Cook Inlet	134	N.A.	N.A.	62 units 26 vac	LPN PHS visit	1 trooper	N.A.	N.A.	none	diesel	yes	N.A.	yes	yes		fish. gov't.
Old Harbor	Koniag	327	state dock		57 units 3 vac	clinic PHS visit	1 local trooper fr. Kodiak	15 volunteer	stream	comm. septic tank	diesel	radio phone	N.A.	yes	yes	yes	N.A.

COMMUNITY INFRASTRUCTURE COMPARISON, page 3 of 3

	REGION	POPULATION	DOCKS	SCHOOLS	HOUSING	HEALTH	POLICE	FIRE-FIGHTERS	FIRE INS. CODE	WATER	SEWER	ELECTRICITY	TELEPHONE	COMMUNITY HALL	LIBRARY	TRAD. SUBSISTEN AREA	POSSIBLE SITE OF OCS ACTIVITY	MAIN INDUSTRY
Pelican	Sealaska	169	cannery dock	Elem H.S.	55 units 0 vac	PHS visit	1 local trooper fr. Sitka	51 volunteer	10	reservoir	outfall	hydro &diesel	yes	yes	yes	no		fisheries
Petersburg	Sealaska	2126	3	Elem H.S.	701 units 76 vac	hospital doctor	7 local 1 trooper	27 volunteer	7	reservoir	outfall	hydro &diesel	yes	N.A.	yes	yes		fisheries forestry
Port Lions	Koniag	227	N.A.	N.A.	67 units 4 vac	clinic doctor PHS	trooper from Kodiak	17 volunteer	10	stream	septic tanks	diesel	yes	yes	yes	yes	yes	N.A.
Quingaguk	Calista	340	none	Elem	72 vac 7 vac	clinic PHS visit	Trooper from Bethel	9 volunteer	10	river & lakes	privies & septic	diesel	radio phone	N.A.	no	yes		N.A.
St. Paul	Aleut	488	N.A.	Elem H.S.	93 units 8 vac	clinic PHS visit	Trooper from Kodiak	6 volunteer	10	wells	septic tanks	diesel	radio phone	N.A.	no	yes	yes	N.A.
Sand Pt.	Aleut	474	N.A.	Elem H.S.	42 units 4 vac	clinic PHS visit	1 trooper	7 volunteer	10	reservoir	aeration	diesel	yes	yes	yes	yes		fisheries
Saxman	Sealaska	272	none	none	29 units 0 vac	PHS visit	trooper from Ktn.	28 volunteer	10	dam	aeration	see Ktn.	yes	yes	no	yes		N.A.
Seldovia	Cook Inlet	612	3	N.A.	29 units 0 vac	hospital PHS visit	1 local trooper fr. Homer	23 volunteer	9	N.A.	outfall	diesel	yes	N.A.	yes	yes		fisheries forestry
Seward	Chugach	1823	3	Elem H.S.	153 units 21 vac	hospital doctors	6 local 1 trooper	1 pd. 33 volunteer	5	wells	outfall	diesel	yes	N.A.	yes	no	yes	N.A.
Soldotna	Cook Inlet	1303	none	Elem H.S.	587 units 97 vac	hospital doctors	5 local 5 trooper	3 paid 19 volunteer	7-9	wells	sludge	diesel	yes	yes	yes	yes		N.A.
Teller	Bering Straits	215	lighter to beach	Elem H.S.	397 units 43 vac	clinic PHS visit	trooper from Nome	N.A.	10	river, ice snow	surface	diesel	radio phone	yes	no	no		N.A.
Unalaska	Aleut	510	N.A.	Elem H.S.	65 units 20 vac	clinic PHS visit	1 local trooper fromKodiak	2 pd. 7 volunteer	6-10	well	outfall	diesel	yes	N.A.	yes	yes		fisheries
Yakutat	Sealaska	354	3	Elem H.S.	72 units 23 vac	clinic PHS visit	1 local 1 trooper	22 volunteer	10	well	aeration	diesel	yes	yes	N.A.	yes		fisheries forestry

APPENDIX E

Alaska State Legislature

House

JUNEAU ALASKA

INTERIM RESOURCES COMMITTEE

Rep. Alvin Osterback
Chairman

Pouch V, State Capitol
Juneau, Alaska 99811
(907) 465-3715

13 December 1977

MINUTES

Meeting on Bottomfish Study

Persons Present

Representative Alvin Osterback
Dr. George Rogers
Dr. Franklin Orth
Dr. Belden Daniels
John Williams
Jim Baldwin
Ken Vassar
Diann Nelson
Kathy Hathaway
Susan Hunter

The meeting was called to order shortly after 11:00 a.m. by Representative Osterback and recessed an hour later, began again at 1:20 p.m. and adjourned at 4:20 p.m.

The following is a summary of a proposal for an Alaskan Fisheries Development Fund Act, submitted by Dr. Belden Daniels.

Premise

The Commercial Fisheries Loan Act deals only with a very narrow part of the problem. It deals with small boats, not with catcher/processors. Nor does it deal with larger boats through second financing with primary commercial bank financing (at least the majority of it). It does not address other aspects of the whole harvesting procedure, e.g., it doesn't deal with processing at all, new technological development, nor the infrastructure necessary to put the deal together. There is a need for a Fund capable of approaching all of the aspects of getting the bottomfishery going financially.

Outline

I. Set forth a clear set of findings that would define the problems, putting it into informal language as broadly and precisely as possible.

II. Have a clear set of purposes that are precise in the various areas.

A. Technological development.
B. Harvesting.
C. Processing.
D. Infrastructure.

III. Have a full, broad set of powers.

A. The ability to make equity investments, guarantees.
B. Strong encouragement to joint venture (with the Danes and other interests), cooperatives, corporations, partnerships.
C. Have lots of freedom in the first and second mortgaging.

IV. Limits

A. On the percentage of equity that can be in the deal (not more than 49%, and it probably should be less).
B. On the percentage of guarantee that can be made on the deal (upper limit of 90%, but language that would encourage the 30% to 40% range).
C. On the percentage of loans that can be turned around and sold as back door financing to the Treasury. (There is a limit like this in the Commercial Fisheries Loan Act, which is unique in that other revolving loan fund limits don't exist.)
D. Strong encouragement (and probably a requirement) for joint ventures. It can't be done alone, but rather in cooperation with a bank or another equity investor.

V. Management of the Loan Fund should be by a board through an independently chartered institution.

A. A balance of four interests on a seven to nine member board.

1. Three to four fishermen representing the salmon, crab and bottomfish fisheries.
2. Two bankers experienced in the field.
3. One person from Administration chosen by the Governor.
4. Several citizens of the state without special interests.

B. An independent staff (not a part of Commerce and Economic Development nor civil service) with no tenure, hired at the market rate, whose salaries come out of having an excess of income over expenses (overhead) and not out of the general fund
C. Requirements of the board.

1. Legal accountability (carry liability insurance).
2. Production accountability in that to keep a job the person must produce.
3. Staggered board terms.

4. Very strong reporting requirements (which none of the other loan funds have).

   a. A set of findings that must be made by the board to the Legislature for each loan or investment.

      1) Show the soundness of the loan.
      2) Show that the loan is not substituting for private capital.
      3) Should create good jobs.
      4) Provide increased revenues to the state that exceed the cost of the project.

   b. Two reports would be reviewed and approved by the House Resource Committee.

      1) A three to five year plan each year of what plans are for the development of the Alaskan fishery.
      2) An annual plan.

         a) Project investments in vessels, processing plants, infrastructural and technological development.
         b) Project the investments in the salmon, crab and bottomfish fisheries which would not be specific but goals.

C. Financing.

1. The general fund appropriation would come from the Legislature (it might come from oil revenues because there is still an element of oil revenues still unallocated).
2. The Fund would then borrow in the capital market for their own debt that they will turn around and use to finance the boats, processing plants, etc.
3. Structure.

   a. Fisherman gets a loan slightly larger than needed to buy the boat.
   b. Fisherman pays the added percentage of the loan (two to three percent) which goes to buy stock from the state government in the Alaskan Fisheries Development Fund.
   c. 15 to 20 years from now the Development Fund would be owned by the fishermen of Alaska.

APPENDIX F

IMPLICATIONS OF FOREIGN INVESTMENT FOR ALASKA POLICY TOWARD BOTTOMFISH DEVELOPMENT

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I. INTRODUCTION

The principles of international economic relationships, even in a pure world where there are no private-market imperfections or governmental interventions, are sufficiently complex to have challenged economic thinkers for three centuries. Added to these fundamental relationships are real-world market imperfections, governmental regulations, domestic and international politics, and complex legal questions relating to the ownership of and access to the world's common resource heritage. This is the world of fisheries management as it relates to the question of foreign investment.

In addition to inherent complexity policy questions relative to foreign investment in fisheries, and relatedly to foreign direct access to fish stocks, are difficult to reduce to straightforward policy guidelines, because they turn on multiple and contradictory positions of economic vested interests within, as well as between, nations. Indeed, such highly complex and controversial equity tradeoffs exist within nations that it is seldom, if ever, possible to reduce an international-economic question (one relating to trade or investment) to a "we versus they" basis. The internal conflict surrounding trade relations can result in decisions being made on the basis of which domestic interest group has the greatest access to political and bureaucratic processes. This method of resolving conflict is not often likely to be consistent with solutions that are based on the applications of accepted economic principles and that would be optimal from the point of view of the whole society.

This report shall include a discussion of several principles of International Economics which are judged by the author to be relevent to the implications of foreign investment for Alaska. Next, a discussion of the types of, and motivations for, foreign investment will be presented. Finally, the information in the preceding sections will be drawn upon to evaluate the implications of foreign investment in Alaska's fisheries.

II. Applicable Economic Principles

The concept of comparative advantage states that each nation of the world and the world in total will be economically better off if each nation specializes in the production of those goods and services in which it has a comparative advantage. Comparative advantage exists because the unique combinations of human and nonhuman resources available to each nation provides a basis for increased production by specialization. For example, if Japan's resources make her the most efficient producer of steel and U.S. resources render the U.S. the most efficient producer of aluminum, then both Japan and the U. S. will benefit from (specialization and trade;) Japan trading steel for aluminum, and vice versa. Note that for the benefits of specialization to be realized foreign trade must take place - Japan trades the steel that is surplus to her own needs to the U.S. for the latter's surplus aluminum.

The terms of trade, the rate at which steel and aluminum are exchanged for each other, are determined within limits by the relative economic bargaining strength of the two nations. The limits within which the terms of trade are established for each nation are determined by what production of both steel and aluminum would exist in the absense of specialization and trade, that is, by the internal rates of exchange between steel and aluminum within each country. Clearly, the U.S. is not willing to trade its aluminum for Japanese steel if she can obtain steel in the U.S. with a lower sacrifice of aluminum. The limit to Japan's willingness to trade with the U.S. is similarly determined by the rate she can exchange steel for aluminum domestically.

The observed international trade of goods and services exists because the consumers within each of the trading partner's boundaries are better off economically with trade than without, because specialization has created a surplus of production that would not otherwise exist. The process of specialization, upon which the benefits from trade depends, requires that within each trading nation resources are transfered away from industries in which a comparative disadvantage exists into those industries where there is a comparative advantage. In the short-run, labor resources in the declining industry are worse off and those in the expanding industry are better off - this is the process by which the market encourages the shift of resources from one industry to another. Because

industries often have a geographic basis - based on access to natural resources, labor resources, or markets - and because nations have political subdivisions, there is a tendency for different areas of a country and different levels of government to view the resource transfers associated with the process of specialization differently - the gainers favoring and the losers opposing. In short, even though specialization and trade create net economic benefits to the world as a whole and, at the national level, to the partners that engage in trade, there are within trading countries losers as well as gainers, each associated with particular industries and geographic regions that are impacted favorably or unfavorably by the process of specialization. Thus it is that we observe national governments favoring trade to the degree possible within the constraints imposed by the operation of political forces for and against trade. Further, we observe that because consumers are not as well organized politically as producers and that gaining producers are generally not as politically effective as losing producers,[1] there is a political bias against free trade. Consequently the "average man on the street" can much more readily cite the reasons why trade should not take place than why it should. Trade is viewed more by individuals as a threat to employment security (and, therefore, the maintenance of the individual's standard of living)

[1]There are numerous reasons for the differences in political effectiveness; they are, however, beyond the scope of this report.

than it is as a requisite to the national standard of living. The fact that the loss of employment is temporary - as the expansion of industries in which the U.S. specializes and the increased standard of living associated with trade generates new domestic employment opportunities - is not widely understood.

An example of the benefits from specialization and trade lies close at hand. The American Constitution denied state governments the power to erect trade barriers. Had each state been allowed to erect the barriers petitioned for by constituents, the American standard of living would be considerable less, as judged by the present dependence on interstate trade and regional economic specialization.

The principles which support an open trade policy are equally supportive of free international capital movements. In the absence of artificial barriers, capital will flow to the area of highest return consistent with the desired level of risk of their owner. Thus, economies with plentiful natural resources and insufficient capital to develop them will receive capital inflows to finance resource extraction, transportation and perhaps manufacturing. It is common for the country supplying the capital to also be a demander of the production thus created, for its own use or for export. The multinational corporation is usually responsible for organizing the injection of capital and, where applicable, the resulting international trade.

To summarize, the following are important principles of international trade:

1. Trade is economically beneficial and a preference for unhampered trade is rationale economic policy.

2. Trade requires economic specialization.

3. The process of specialization requires the transfer of resources within trading countries; these transfers are especially painful for human resources because of short-run dislocations in employment security.

4. Political influence with respect to trade issues is unequally distributed, with the losing regions and industries being more vocal and aggresive than consumers and the gaining industries and regions.

5. Individuals view trade with fear for their own employment security without being aware of their own dependence on trade for maintaining their standard of living.

6. The principles which support an open trade policy are equally supportive of free international capital movements, of which direct foreign investments is a part.

III. WHAT IS FOREIGN INVESTMENT?

Foreign investment consists of either or both of the following investment activities:

1. The purchase (or construction) of plant and equipment abroad. In 1976, the U.S. direct investment abroad was $4.6 billion and that made by foreign businesses in the U.S. was $2.2

billion.[2] There are varied motivations for this type of investment and there are varied means by which it can be accomplished. First, a foreign firm could establish a U.S. subsidiary which purchases all or part of the assets of an established firm. Second, a foreign firm or its American affiliate could purchase the stock of an American firm, thus obtaining an ownership interest in the assets of the acquired firm.[3] Third, the foreign firm or its affiliate could acquire the bonds and notes of American firms, thus acquiring a claim against the assets of the domestic company. This type of investment actually belongs to the second category to be discussed below, but it is included here for ease of comparability with data which will be presented shortly.

The motivations for the acquisition of interest in domestic companies include:

a) To enter American markets - a market-extention conglomeration by a multinational firm.

b) To provide domestic plants with an input that is the output of its U.S. affiliate, e.g., raw material extraction and shipment; or to assure a source of supply for domestic final consumption and/or export, of the products produced by the U.S. affiliate.

c) Although seldom a factor unto themselves, regulatory

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[2]Federal Reserve Bulletin August, 1977, P.A54.

[3]A purchase of 10 percent or more of the equity of a U.S. firm is counted as direct foreign investment as opposed to security investment.

conditions or world economic-financial considerations can induce direct investment. Japan's investments in U.S. fisheries in recent years, for example, has probably been stimulated by both dollar devaluation and the threat to traditional sources of supply posed by extended jurisdiction.

2. The second broad category of foreign investment consists of purchases of securities in U.S. companies. Theses are typically viewed as pure investment-account transaction and consist of three types.

a) The purchase of equity in American companies in amounts less than 10 percent of total equity. Amounts equal to or greater than 10 percent are treated as direct investment as discussed above.

b) The purchase of debt securities (bonds and notes) of American firms. This type of investment is usually considered to be purely financial investment, but there may be implicit or explicit conditions before such credit is extended, e.g., the first right of refusal on product offered for sale. The latter circumstance appears to typify foreign security investments in fisheries, making them more analogous to foreign direct investment. For this reason, they are included above as part of foreign direct investment.

c) The acquisition of short-term financial claims including bank deposits, commercial paper, banker's acceptances, and other private short-term notes. This form of foreign investment is a purely financial investment and will not be discussed

further in this report. The primary inducement to such investments are differences in short-term interest rates among nations.

A recent N.M.F.S. study based on data through 1974 indicated that foreign investment in U.S. fisheries was $129 million in 1974, an increase of 30 percent over the preceding year.[4] Of this amount, $44 million was in the form of equity items and $8.5 million in debt. This debt constitutes claims on 66 percent of the assets of the issuing firms. This study showed that American affiliates of some foreign compaines (particularly those of Canada, Iceland, Mexico, and Norway) were primarily used to obtain or enhance access to U.S. markets, as these companies were substantial net importers of fisheries products into the United States. Most fishery exports were made by Japan and British affiliates indicating that obtaining access to sources of supply was an important motivation to direct foreign investment for these companies. However, the affiliate companies of Britain were the only ones that as a group were net exporters.[5]

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[4]Siegel, Robert A. "Foreign Direct Investment in the U.S. Commercial Fisheries Industry. Marine Fisheries Review, December, 1976.

[5]Ibid.

IV. IMPLICATIONS OF DIRECT FOREIGN INVESTMENT FOR ALASKA'S FISHERIES

It is not the purpose of this report to conduct a primary survey of the amounts, types, motivations, or origins of foreign investments in Alaska fisheries. Actual amounts of Japanese investment are unknown due to incomplete reporting, poor enforcement of reporting requirements and methods of escaping reporting requirements.[6] Two studies of foreign investment in fisheries are underway. Per Heggelund, of the Marine Advisory Program, University of Alaska, is completing a masters thesis on the subject from the Department of Business, University of Washington. The Alaska Sea Grant Program is attempting to develop a foreign-investment profile of shellfish processing industries to relate to other market structure characteristics of shellfish markets and marketing.

Suffice to say that Japanese investment is substantial, with well-known cases of majority, and in several cases nearly universal, ownership. In addition, it is well known that numerous joint ventures are being proposed or negotiated for which management approval is being sought. The form of a joint venture will determine whether or not it constitutes foreign investment, as judged by the definition of foreign investment given in the preceding section. The buying joint

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[6]See memorandum from John Williams, Legislative Affairs Agency, to Representative Keith Specking (dated March 18, 1977).

venture does not constitute foreign investment but it does (may) represent an alternative means for a foreign company to access U.S. controlled resources.

Two management agencies, or more properly, levels of management, are called upon to respond to questions relating to foreign access. They are, of course, the N.P.F.M.C. and the State of Alaska. The decisions made by these agencies with respect to foreign access will to some extent be affected by the present degree of foreign investment, and the present forms of access; and these decisions will, in turn, affect the investment policies of foreign companies. An added complexity is that so little is known about the economics of, and marketing practices within, individual fish and shellfish markets (including market structure) that it is usually impossible to predict what the response of foreign or domestic firms to management decisions will be. Thus, decisions by management agencies in responce to one form of foreign access may induce other forms.

As a result of the present absence of knowledge, it is proper that the State of Alaska adopt, within certain limits, a laissez-faire policy with respect to foreign investment and joint ventures. Such a position would allow market forces to operate and is tenable to the degree that the state can influence events independent of the N.P.F.M.C. and the extent that it can do so without major disruption to policies established by the Council; otherwise, its policies should

be consistent with those of the Council.

Foreign Investments in Alaska Fish-Processing Plants

What are the motivations and economic effects of foreign investment in Alaska shore-based and floating processing facilities? One must speculate on the motivations but they likely include one or more of the following:

1. To maintain access to supplies of fish and shellfish for domestic (Japanese) comsumption markets, and for export markets, due to uncertainty about traditional methods of access. Both the placement (geographic and species) and timing of Japanese investment suggest that this has been a primary motivation.

2. To obtain greater control over both the buying and selling side of the markets in which a foreign company competes in order to, a) extract better terms from the fishermen from whom they buy raw fish and buyers to whom they sell processed fish; and b) to extract better terms from U.S. processors from whom they also buy, by obtaining information on the costs of processing and delivering, and by having an alternative source of supply which could be expanded if prices are not closely related to the costs of the U.S. affiliates of foreign firms.

3. To obtain or expand access to U.S. markets (and perhaps other export markets) and in particular to reach such markets from lower costs contiguous sources of supply. This is likely to be a long-run objective realized through

substantial capital improvements in acquired Alaska plants.

There are two ways that foreign investment in Alaska processing firms can produce economic benefits. First, such investment can broaden the markets to which the harvesters of Alaska fisheries have access. This has the effect of enhancing competition for Alaska caught fish and shellfish, a process which should both elevate and stabilize prices to fishermen (in comparison to prices without expanded markets). Investments pursued under the first motivation would have this effect as institutional changes (i.e., extended jurisdiction) cause foreigner's traditional sources of supply to be channeled through Alaska harvesters (Tanner crab is the outstanding example). The third motivation would tend to have similar price effects due to an improved ability of U.S. affiliates of foreign companies to compete for product.

The second economic benefit from foreign investment results from the influx of capital associated with the expansion of facilities that often accompanies a takeover. The increments in employment, income, and tax revenues are examples of the benefits that ensue. Both the price effects and the employment-income effects of foreign investment induce higher tax revenues to local and state governments.

Foreign investment can also have negative impacts contrary to those discussed above if it leads to the domination of markets and barriers to entry of new firms. It is frequently alleged, for example, that the Japanese have obtained market dominance in Tanner crab through their combined ownership and control of substantial portions of the processing and marketing capacity of both primary producers, U.S. and Japan. There is insufficient information, at present, about Japanese industrial relationships to properly evaluate the net impact of Japanese foreign investment on U.S. ex-vessel prices or final market prices. It is clear, however, that to the extent that concentration is already very high among domestic firms, a Japanese company's investments in two or more of those firms will have probable significant anticompetitive effects. It is this pyrimiding of ownership interties which, it is hoped, will be assessed by the survey results of the Alaska Sea Grant Program study and evaluated as to their significance and probable effects in light of the other structural characteristics of the industry.

It is important to recognize that questions of market-dominance in Alaska by foreign or domestic companies or by both in concert, are as much questions of domestic antitrust policy as they are of policy toward foreign investment. To the extent that antitrust policy (Alaska or U.S.) can be applied to weed out existing dominant market positions based on ownership pyrimiding by foreign firms and those foreign investments which reflect the market-dominance objective,

as opposed to those which represent the market-extension and market-expansion objectives, foreign investments can be expected to result in healthy new competitive forces in domestic markets.

Joint Ventures for High-Seas Processing

Although they are not strictly defined as direct foreign investment, a related set of questions surround the proposed joint ventures between foreign firms with floating processing vessels and groups of Alaska fishermen. The benefits of such arrangements to Alaska fishermen are already widely appreciated and they have been subjected to some economic evaluation.[7] Basically these benefits are long-run commitments to provide Alaska fishermen with access to the markets for a new resource, long-run commitments on the minimum price to fishermen including a bonus for maintaining patronage for a minimum period (e.g., five years), higher incomes and income-tax revenues than would exist without the joint ventures, an opportunity to imitate fishing techniques of foreign rivals, and an opportunity to learn while having an assumed market.

The alleged disadvantages are more controversial. They are the lost income, employment and tax base from foregone shore-based facilities that would be built, it is contended,

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[7]See memorandum from Michael Scott, ISER, University of Alaska to Charles Metchum, Office of the Governor (dated July, 1977) and the paper by Sig Jeager, Manager, North Pacific Fishing Vessel Owners Association, to the North Pacific Fisheries Manage- Council. August, 1977.

were it not for the foreign competition. While there is some logic to these arguments, they have limited relevance if shore-based facilities have a comparative cost disadvantage with floating processing vessels. That there is such a disadvantage is suggested by Sig Jeager's comparative analysis of vessels delivering to shore-based and floating processors.

Jeager's analysis shows that the comparative advantage of floaters is not sufficient to overcome the present opportunity income in the crab fishery. This fact should present no serious long-run impediment to the entry of vessels from other fisheries. It is the opportunity to earn an income above opportunity costs that has attracted vessels into the crab fishery, a like opportunity in the bottom-fishery can be expected to induce the same type of response, but certainly at a slower rate than otherwise due to the high present return in the crab fishery. The feasibility of alternative modes of processing bottomfish becomes a function of which form can pay the higher opportunity income above the minimum required to attract entry into the harvesting sector.

To pursue a state policy which gives preferential treatment to shore-based processors, contains two real dangers. First, Alaska fishermen are denied income by foreclosing foreign buyers (under an absolute exclusion) either in the form of no market being developed by shore-based processors or in the form of a decreased net price by having to harvest and

transport the catch in a manner that is less efficient than alternative means. Second, to the extent that the shore-based alternative is seriously deficient, a preferential policy to encourage their development will likely make all parties worse-off in the long-run (i.e., the amount of time it will take for American firms to enter with competitive floating processors). If shore-based facilities are neither encouraged or discouraged in state policy they may or may not become successfully established depending upon the relative efficiency of alternative techniques. But even if they are artificially encouraged in the short-run by barriers that cannot be maintained (because the prohibition on floaters would only apply to foreign firms[8]) they will not survive in the long-run, if the shore-based method is fundamentally less efficient. In the meantime, by unknowingly having encouraged the "wrong" form of investment we have, by absorbing scarce capital, also discouraged the "right" form of investment.

These considerations - the absence of knowledge about markets, methods of production, and ownership distribution among shore-based firms (from which to determine who benefits in the short-run from a preference policy)- all suggest that a policy of neutrality would be at least as likely to maximize benefits as one of preference. To establish a policy of preference for shore-based processors (or any other form)

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[8]A potentially interesting question of discrimination may exist if foreign-owned, shore-based "American" firms desire to enter the bottomfish market with floating processing vessels while "foreign" firms with such vessels are excluded. This is another factor which would seem to warrant a neutral management policy with respect to foreign investment.

is to trade off fishermen welfare for processor welfare in the short-run (expressed quantitatively as the difference in price or net price received by fishermen), without being able to identify long-run benefits that have a high probability of being realized. In short, if shore-based processors are economically preferable they will be selected by market forces without state policy preferences, and if they are economically inferior, they will be eliminated by market forces irrespective of state preferences. It would seem to follow that a policy of leaving investment decisions and private contractual arrangements over terms of sale to work themselves out through market forces would maximize the potential for benefits to Alaskans of bottomfish development.