

**HB**

**204**

<TARGET><BILL>HB 204</BILL><SUBJECT>HB  
204</SUBJECT><COMM>HFSH28</COMM></TARGET>

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 204  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY REPRESENTATIVES AUSTERMAN, Edgmon, Kerttula, Peggy Wilson

Introduced: 2/5/14

Referred: House Special Committee on Fisheries, Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a product development tax credit for certain salmon and herring  
2 products; and providing for an effective date."

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

4 \* Section 1. AS 43.75.035(a) is amended to read:

5 (a) A taxpayer that is a fisheries business may claim a [SALMON] product  
6 development tax credit of 50 percent of qualified investment in new property first  
7 placed into service in a shore-based plant or on a vessel in the state in the tax year.

8 \* Sec. 2. AS 43.75.035(b) is amended to read:

9 (b) The amount of the tax credit applied against taxes under this section may  
10 not

11 (1) exceed 50 percent of the taxpayer's tax liability incurred under this  
12 chapter for processing of salmon or herring during the tax year; or

13 (2) be claimed for property first placed into service after December 31,  
14 2020 [2015].

1 \* **Sec. 3.** AS 43.75.035(c) is amended to read:

2 (c) If the property for which a tax credit is claimed is installed on a vessel, the  
3 amount of qualified investment under (a) of this section is determined by multiplying  
4 the investment cost of the qualified investment property by a fraction, the numerator  
5 of which is the weight of raw salmon or raw herring processed on the vessel by the  
6 taxpayer in the state in the tax year in which the property is first placed into service,  
7 and the denominator of which is the weight of raw salmon or raw herring processed  
8 on the vessel by the taxpayer in and outside of the state in the tax year in which the  
9 property is first placed into service.

10 \* **Sec. 4.** AS 43.75.035(d) is amended to read:

11 (d) An unused credit under this section may be carried forward and applied  
12 against the tax liability incurred on salmon or herring in the following three tax years.

13 \* **Sec. 5.** AS 43.75.035(g) is amended to read:

14 (g) If, during a tax year, property for which a credit was claimed under this  
15 section is disposed of by the taxpayer, ceases to be qualified investment property, or is  
16 removed from service in the state, the tax due under this chapter is increased by the  
17 recapture percentage of the aggregate decrease in the credit allowed under this section  
18 for all prior tax years that would have resulted solely from reducing to zero the credit  
19 allowed for the qualified investment property under this section. The amount of tax  
20 credit attributable to the qualified investment that is carried forward from prior tax  
21 years is terminated as of the first day of the tax year in which the qualified investment  
22 property is disposed of by the taxpayer, ceases to be qualified investment property, or  
23 is removed from service in the state. For purposes of this subsection,

24 (1) the recapture percentage during the year in which the property is  
25 first placed into service or during the first year following the year in which the  
26 property is first placed into service is 100 percent;

27 (2) the recapture percentage during the second year following the year  
28 in which the property is first placed into service is 75 percent;

29 (3) the recapture percentage during the third year following the year in  
30 which the property is first placed into service is 50 percent;

31 (4) the recapture percentage during the fourth or subsequent year

1 following the year in which the property is first placed into service is zero percent;

2 (5) qualified investment property used on a vessel is considered to  
3 have been removed from the state on the first day of a tax year in which the proportion  
4 of raw salmon or raw herring processed in the state on the vessel is less than 50  
5 percent of total weight of raw salmon or raw herring processed on the vessel in and  
6 outside of the state.

7 \* Sec. 6. AS 43.75.035(i) is amended to read:

8 (i) The department shall develop and implement procedures by which a  
9 taxpayer that is a fisheries business may submit the taxpayer's proposed investment to  
10 the department and request a preliminary determination of whether the investment  
11 qualifies for the [SALMON] product development tax credit under this section. A  
12 preliminary determination by the department that the taxpayer's submission qualifies  
13 for the credit is binding, unless the department determines that the taxpayer has made  
14 a material misrepresentation in the taxpayer's submission.

*Good enough*

15 \* Sec. 7. AS 43.75.035(j)(3) is amended to read:

16 (3) "qualified investment" means the investment cost to purchase or  
17 convert [IN] depreciable tangible personal property with a useful life of three years or  
18 more to be used predominantly to perform an ice making, processing, packaging, or  
19 product finishing function that is a significant component in producing value-added  
20 salmon or herring products, including canned salmon products in can sizes other  
21 than 14.75 ounces or 7.5 ounces [BEYOND GUTTING OF THE SALMON]; in this  
22 paragraph, "property"

23 (A) includes

24 (i) equipment used to fillet, skin, portion, mince,  
25 form, extrude, stuff, inject, mix, marinate, preserve, dry, smoke,  
26 brine, package, freeze, scale, grind, separate meat from bone, or  
27 remove pin bones [FILLETING, SKINNING, PORTIONING,  
28 MINCING, FORMING, EXTRUDING, STUFFING, INJECTING,  
29 MIXING, MARINATING, PRESERVING, DRYING, SMOKING,  
30 BRINING, PACKAGING, BLAST FREEZING, OR PIN BONE  
31 REMOVAL EQUIPMENT];

*How relate  
to predominantly  
used.*

1 (ii) new parts necessary for, or costs associated with,  
 2 converting a canned salmon line to produce can sizes other than  
 3 14.75 ounces or 7.5 ounces [TO CONVERT AN EXISTING CAN  
 4 SEAMER TO POP-TOP CAN PRODUCTION];

5 (iii) conveyors used specifically in the act of producing  
 6 a value-added salmon or herring product; [AND]

7 (iv) ice making machines;

8 (v) new canning equipment for herring products;

9 and

10 (vi) equipment used to transform salmon or herring  
 11 byproduct that is discarded as waste into saleable product;

12 (B) does not include

13 (i) vehicles, forklifts, conveyors not used specifically in  
 14 the act of producing a value-added salmon or herring product, cranes,  
 15 pumps, or other equipment used to transport salmon or herring, or  
 16 salmon or herring products, knives, gloves, tools, supplies and  
 17 materials, equipment, other than ice making machines, that is not  
 18 processing, packaging, or product finishing equipment, or other  
 19 equipment, the use of which is incidental to the production, packaging,  
 20 or finishing of value-added salmon or herring products; [OR]

21 (ii) the overhaul, retooling, or modification of new or  
 22 existing property, except for new parts necessary for, or costs  
 23 associated with, converting a canned salmon line to produce can  
 24 sizes other than 14.75 ounces or 7.5 ounces; or

25 (iii) property used predominantly to produce a  
 26 salmon or herring product that is not taxed under this chapter [TO  
 27 CONVERT AN EXISTING CAN SEAMER TO POP-TOP CAN  
 28 PRODUCTION];

29 \* Sec. 8. AS 43.75.035(j)(6) is amended to read:

30 (6) "value-added salmon or herring product" means the product of a  
 31 salmon or herring that is processed beyond heading, gutting, or separation in a

1 manner that [MATERIALLY] enhances the value or quality of the salmon or herring  
2 product, such as shelf-stable, retort pouched, smoked, pickled, or filleted salmon,  
3 ikura, leather, [OR] jerky, or a saleable product made from waste byproduct of  
4 salmon or herring; "value-added salmon or herring product" does not include a  
5 salmon or herring or salmon or herring product that

6 (A) has been subjected to only one or more of heading, gutting,  
7 freezing, or packaging [, QUALITY ASSURANCE PRACTICES, OR  
8 VALUE RETENTION PRACTICES];

9 (B) is salmon skeins or other unprocessed salmon or  
10 unprocessed herring products whether fresh or frozen; or

11 (C) [IS CANNED, EXCEPT FOR SALMON PRODUCTS IN  
12 A POP-TOP CAN; OR

13 (D)] is produced out of the state.

14 \* **Sec. 9.** This Act takes effect immediately under AS 01.10.070(c).



# Representative Alan Austerman

## *Alaska State Legislature*

*Session:*

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### **SALMON AND HERRING PRODUCT DEVELOPMENT TAX CREDIT HOUSE BILL 204**

The Alaska Salmon Product Development Tax Credit has been in place since 2003 and is widely credited as a major factor of the increase in commercial value of Alaska salmon. The ASDTC is currently scheduled to sunset on December 31<sup>st</sup>, 2015.

There have been positive trends since this bill was enacted in 2003. We have seen increased product diversity, increased state revenues from the fisheries business tax and increased permit prices.

The current tax credit applies to investment in new property that meets a requirement for creating a value added salmon product. House Bill 204 extends the ability of industry to use this credit until 2020 and expands the credit for herring value-added processing.

Herring is an established fishery in Alaska and is a prime candidate to start utilizing more fully. If we expand out of the roe fishery and into the food fishery, there are significant economic development opportunities that will be developed. Up until now, the herring fishery has been an underutilized fishery where only 10 percent of the fish is utilized and 90 percent has very little value.

Another impending burden to industry is the Environmental Protection Agency's efforts to force industry to eliminate seafood discharges containing solids into near shore waters. Many salmon processing facilities in Alaska currently grind (1/2 inch) and pump discharge. HB 204 would incentivize investment in equipment that would reduce the waste stream from salmon and herring processing alleviating the pressure to comply with these burdensome mandates.

Currently, statute only allows investment in pop-top cans. HB 204 also provides industry the necessary flexibility to respond to changing market demands for can sizes. This bill responds to this limitation by expanding the credit to any new equipment to herring and also to produce can sizes other than 14.75 ounces or 7.5 ounces.

The continued growth of the Alaska seafood market is vital to increased revenues from our fisheries. House Bill 204 will further encourage in-state processing and expand market opportunities to processors. The extension of the tax credit will continue to spur economic development opportunities and create quality Alaska products. I urge your support for passage of this bill.



**State of Alaska**  
**Department of Revenue**  
**Salmon Product Development Tax Credit Overview**

**A Presentation to the House Fisheries Committee**  
 February 4, 2014

Angela M. Rodell  
 Commissioner  
 Alaska Department of Revenue



## Statistics

### Gross Revenue from Fisheries Business Tax and SPD and Utilization Credits Claimed

	Gross Revenue	Credits Claimed*	% of Revenue
FY 2004	26,319,585	(1,379,475)	5.2%
FY 2005	25,941,837	(2,314,258)	8.9%
FY 2006	32,203,813	(3,058,516)	9.5%
FY 2007	29,910,171	415,745	-1.4%
FY 2008	35,909,264	(4,501,973)	12.5%
FY 2009	42,151,283	(3,121,697)	7.4%
FY 2010	32,653,241	(4,074,071)	12.5%
FY 2011	45,669,159	(2,057,255)	4.5%
FY 2012	50,581,499	(71,598)	0.1%
FY 2013	46,905,206	(1,832,081)	3.9%

\*Does not reduce municipal share  
 As reported on DOR Annual Reports

# Statistics

## SPD Credit Detail

Calendar Year	Claimed Costs	Qualified Costs	Non-qualified Costs	No. of Taxpayers	Pre-approval Requests
2003	2,322,209	823,471	1,498,738	18	-
2004	6,569,081	1,462,600	5,106,481	25	-
2005	6,468,981	3,252,045	3,216,936	22	-
2006	5,792,524	2,514,286	3,278,238	29	-
2007	14,220,435	8,605,488	5,614,947	27	-
2008	10,336,099	7,506,510	2,829,589	21	-
2009	11,989,657	9,408,320	2,581,337	13	6
2010	2,149,908	2,052,163	97,745	13	4
2011	3,958,959	3,958,959	*	19	4
2012	8,178,560	8,178,560	*	13	3
<b>Total</b>	<b>71,986,413</b>	<b>47,762,400</b>	<b>24,224,013</b>		

\*Audits in progress

**Figure 3 - Revenue Collections Detail***Listed in order of total amount FY 2012 total receipts**All receipts are General Fund unless otherwise designated*

TAX TYPE	FY 2012	FY 2011	FY 2010
<b>Fisheries Business Tax</b>			
Established			
Shore-based	\$38,007,287	\$32,930,706	\$22,769,614
Floating	7,356,146	6,337,078	5,045,905
Cannery	5,151,867	6,347,450	4,792,527
Developing			
Shore-based	65,474	53,585	44,158
Floating	<u>725</u>	<u>340</u>	<u>1,037</u>
Total Tax	<b>50,581,499</b>	<b>45,669,159</b>	<b>32,653,241</b>
Prepayments	2,405,470	1,314,972	3,612,603
Penalties and Interest	995,246	157,442	313,438
License Fees	12,250	12,475	13,250
Less Credits			
Winn Brindle	(175,338)	(184,817)	(123,060)
Alaska Education	(650,015)	(449,730)	(450,000)
Salmon Product Development	<u>(71,598)</u>	<u>(2,057,255)</u>	<u>(4,074,071)</u>
<b>Total Receipts</b>	<b>53,097,514</b>	<b>44,462,246</b>	<b>31,945,400</b>
Fisheries Business Tax Shared			
Direct to Municipalities	(24,576,578)	(22,216,898)	(16,255,158)
DCCED* Municipal Allocation	<u>(2,075,432)</u>	<u>(2,153,491)</u>	<u>(1,686,964)</u>
<b>Amount Retained by State</b>	<b><u>\$26,445,504</u></b>	<b><u>\$20,091,857</u></b>	<b><u>\$14,003,278</u></b>
* Department of Commerce, Community and Economic Development			
<b>Mining License Tax</b>			
<b>General Fund</b>			
Tax Before Credits	\$46,792,131	\$50,085,541	\$29,673,039
Penalties and Interest	6,926	(34,164)	98,416
Mineral Exploration Incentive Credit	(5,873,944)	(949,466)	0
Alaska Education Credit	<u>(282,928)</u>	<u>(121,397)</u>	<u>(94,471)</u>
<b>Total Receipts - General Fund</b>	<b>40,642,185</b>	<b>48,980,514</b>	<b>29,676,984</b>
<b>Constitutional Budget Reserve Fund (CBRF)</b>	<b><u>53,648</u></b>	<b><u>607,605</u></b>	<b><u>48,116</u></b>
<b>Total Receipts - All Funds</b>	<b><u>\$40,695,833</u></b>	<b><u>\$49,588,119</u></b>	<b><u>\$29,725,100</u></b>

## Southeast Alaska Fishermen's Alliance

9369 North Douglas Highway

Juneau, AK 99801

Phone: 907-586-6652

Fax: 907-523-1168

Email: [seafa@gci.net](mailto:seafa@gci.net)

Website: <http://www.seafa.org>



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February 5, 2014

Alaska State Legislature  
House Fisheries Committee  
Representative Paul Seaton, Chair  
State Capitol  
Juneau, AK 99811

RE: Support HB 204

Representative Paul Seaton, Chair and Fisheries Committee Members,

Southeast Alaska Fishermen's Alliance (SEAFA) supports HB 204. We are a multi-gear/multi-species membership based commercial fishing association. We represent our membership mainly involved in the salmon, crab, shrimp and longline fisheries of Southeast Alaska/Yakutat.

Southeast Alaska Fishermen's Alliance supports HB 204 which will extend the salmon production development tax credit to 2020 and adding herring as well as salmon. This has been a good program over the years in helping to increase the value of salmon and we believe will have the same benefits to the herring fishery. The bill also encourages the utilization of development opportunities of salmon and herring by-catch.

Sincerely,

A handwritten signature in black ink that reads "Kathy Hansen" followed by a long horizontal line.

Kathy Hansen  
Executive Director

Summary of Tom Sunderland's testimony to the Alaska House Fisheries Committee on HB 204.  
Testimony given Thursday, February 6, 2014

Ocean Beauty Seafoods is a shoreside processor with six plants in Alaska. Our hope is to use this tax credit to modernize our shoreside facilities that can salmon and herring. I am going to give a market-based testimony based on salmon.

The first thing to know about the existing Salmon Product Development Tax Credit is that it worked. It was successful in helping lift the industry out of a time of low value by helping processors to diversify product offerings, and through that product diversification, diversify markets. As a result the industry is far less vulnerable to being held hostage by overreliance on either a single market, such as Japan, or a single product form, such as traditional canned salmon.

This bill is necessary to defend these gains. We are now seeing the market push back against the higher prices our products now command. It is not the case that we can forever raise prices – consumers at some point will resist. They don't necessarily see the value in a tall can of red salmon or a four ounce package of smoked sockeye that approaches \$10.

Consumers don't buy these types of products by the pound, as they do fresh fish, but buy based on absolute price as they do with other packaged goods. Consider the examples of canned tuna or even breakfast cereal – those items routinely and successfully downsize their packaging as a way of mitigating absolute price on the shelf. Tuna is now sold in the US primarily in 5oz cans. The Australian tuna market is dominated by 95g (3.3 ounce) cans. They can do this much more easily than we can due to the year-round nature of their business and their location on road systems. We need this tax credit to give us the ability to respond to this market pressure and reduce the size of the cans and the shelf price. If we don't do this we risk becoming an irrelevant product to many consumers and retail customers.

While price is a primary motivator for this, price is not the only driver of this change. This move toward smaller cans is also driven by permanent household demographic changes: smaller households don't require as much food as larger ones. A smaller can is more convenient, results in less waste, costs less, and is therefore more attractive in most ways.

Gaining value from currently worthless byproduct is one of the best weapons we could have to defend the industry's price gains. We can't always expect the value of the flesh to appreciate, or to maintain current levels, but converting byproduct into saleable product is a pure win for the Alaskan industry and could hedge against price declines.

Byproduct utilization also provides us with the added benefit of keeping the EPA off of our back as they inevitably change remote discharge regulations. Every pound of byproduct we are able to manufacture into saleable product helps Alaska both directly through added value and by helping the industry deal with these new regulations.

## Louie Flora

---

**From:** Rep. Paul Seaton  
**Subject:** FW: clarification on application of product development tax credit for equipment on vessels

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**From:** Louie Flora  
**Sent:** Tuesday, February 11, 2014 5:13 PM  
**To:** Rep. Paul Seaton; Paul Seaton ([pkseaton@gmail.com](mailto:pkseaton@gmail.com))  
**Subject:** FW: clarification on application of product development tax credit for equipment on vessels

---

**From:** Cottongim, Timothy D (DOR) [<mailto:tim.cottongim@alaska.gov>]  
**Sent:** Tuesday, February 11, 2014 3:53 PM  
**To:** Louie Flora  
**Cc:** Tangeman, Bruce E (DOR); Bales, Johanna D (DOR); Kim, Anna (DOR)  
**Subject:** RE: clarification on application of product development tax credit for equipment on vessels

Louie,

We've not previously come across the scenario you've provided. However, in this instance, we would first determine if the equipment was used predominantly to process value-added salmon. If the answer is "yes", the equipment would qualify for a credit. Second, we would determine the amount of processing taking place in the state compared to how much is taking place outside the state and allow a credit for only the percentage of processing conducted in the state. For example, if 70% of total fish processed was value-added salmon within the state, we would allow a credit for 70% of the cost of the equipment.

*Tim Cottongim*

Fish Tax & Licensing Manager - Juneau  
Department of Revenue - Tax Division  
(907)465-3695

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**From:** Louie Flora [<mailto:Louie.Flor@akleg.gov>]  
**Sent:** Monday, February 10, 2014 5:15 PM  
**To:** Cottongim, Timothy D (DOR)  
**Subject:** RE: clarification on application of product development tax credit for equipment on vessels

Thanks Tim,

A further question is on the use of equipment that is used entirely on salmon in state waters, and some other fish (cod for instance) in federal waters. How would DOR treat this in terms of applying the tax credit?

Louie

---

**From:** Cottongim, Timothy D (DOR) [<mailto:tim.cottongim@alaska.gov>]  
**Sent:** Monday, February 10, 2014 4:14 PM  
**To:** Louie Flora  
**Cc:** Tangeman, Bruce E (DOR); Bales, Johanna D (DOR); Kim, Anna (DOR); Egan, Alicia R (DOR)  
**Subject:** RE: clarification on application of product development tax credit for equipment on vessels

Hi Louie,

No, the location of the activity is not relevant to the predominant use requirement. However, AS 43.75.035(c) provides that the qualifying investment cost otherwise eligible for the credit must be reduced based on the ratio of processing activity conducted in the state over the processing activity conducted in the state and **outside the state** (which includes federal waters).

*Tim Cottongim*

Fish Tax & Licensing Manager - Juneau  
Department of Revenue - Tax Division  
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---

**From:** Louie Flora [<mailto:Louie.Flora@akleg.gov>]  
**Sent:** Monday, February 10, 2014 3:00 PM  
**To:** Cottongim, Timothy D (DOR)  
**Cc:** Egan, Alicia R (DOR)  
**Subject:** clarification on application of product development tax credit for equipment on vessels

Hi Tim,

In advance of this Thursday's hearing on HB 204, Representative Seaton has asked for some clarification on how Revenue interprets the qualifications for value added equipment on vessels that operate in both state and federal waters.

Does the qualified processing equipment's usage during a fishery prosecuted in federal waters also count for determining predominant usage for purposes of a state tax credit? Or does the usage have to occur entirely in state waters?

Thanks,

Louie

Louie Flora  
House Fisheries Committee Aide,

Representative Paul Seaton, Chairman  
House Fisheries Committee  
(907) 465-3923



THE STATE  
of **ALASKA**  
GOVERNOR SEAN PARNELL

**Department of Revenue**

COMMISSIONER'S OFFICE  
Angela M. Rodell, Commissioner

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February 11, 2014

The Honorable Paul Seaton, Chair  
House Fisheries Committee  
Alaska State Legislature  
State Capitol, Room 102  
Juneau, AK 99801-1182

Dear Chair Seaton:

Thank you for the opportunity to provide follow up to certain items raised during the February 6, 2014 House Fisheries Committee meeting. Please see specific items in italics and our responses immediately below.

1. *Define "material misrepresentation"*

The common definition of "material misrepresentation" is

- o "a deliberate hiding or falsification of a material fact which, if known to the other party, could have aborted, or significantly altered the basis of, a contract, deal, or transaction."

For our purposes, it would be if a taxpayer asked for a predetermination and falsified any of the information that they provided or withheld information and, if they had been honest and provided all information, we would have denied the credit.

- For example, taxpayer states that they purchased new equipment which will be used predominantly to process salmon beyond heading, gutting and/or freezing. If we approve the credit for the equipment and then find out later that the equipment was used or was not used predominantly to process salmon or the salmon wasn't processed beyond heading, gutting, or freezing, we would be able to deny the credit.

Even in the event the taxpayer didn't intentionally mislead us, if the equipment didn't meet all criteria for the credit after the fact, then we would also be able to deny the credit at a later date. For example, if the market changed and the equipment was never placed in service, we wouldn't provide a credit.

The Honorable Paul Seaton  
February 11, 2014  
Page 2

2. *What do the investments that have been made look like? This was asked by Representative Kreiss-Tomkins in response to Joe Jacobson's slide on Gross Revenue from Fisheries Bus Tax and Utilization of Credits Claimed.*

Specifically it seems Representative Kreiss-Tomkins is looking for what kind of equipment the industry is purchasing, and what kind of new products, efficiency improvements, and quality improvements the industry is making that have been enabled by the tax credits.

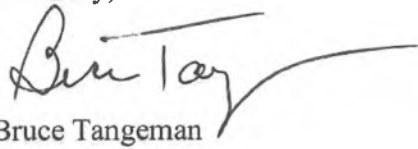
Tax Division Auditor, Mike Kazmac prepared the attached document, which provides a general listing of qualified versus disqualified equipment, related to the tax credit.

However, Rep. Kreiss-Tomkins was looking for a more qualitative response-

- New products we have seen as a result of the tax credit: increase in Ikura (salmon roe), some oils for vitamin supplement capsules, smaller sized filet portions, skinless filets.
- Efficiency improvements: in general our list of qualified equipment has produced a varying level of efficiency, especially in cases where the work was previously performed manually.
- Quality improvements are hard to quantify and we currently don't require reporting of quality improvements.

I hope you find this information to be useful. Please do not hesitate to contact me if you have further questions.

Sincerely,



Bruce Tangeman  
Deputy Commissioner

Attachment: SSHB204-SPDC qualified vs non qualified equipment.pdf

## SPDC Equipment

### Qualified Equipment

1. Fillet machines
2. Fillet portioners
3. Fillet trimming machines
4. Pin bone removal equipment
5. Skinning machines
6. Active trim line conveyors
7. Fillet washers
8. Fillet driers
9. Filler glazers
10. Vacuum packaging machines
11. Blast freezers
12. Plate freezers
13. Ice machines
14. Labelers
15. Printers
16. Smokehouse equipment
17. Roe separators
18. Roe washers
19. Roe dryers
20. Roe agitators
21. Brine makers
22. Tray sealers
23. Oil separators
24. Decanters
25. Retorts
26. Spice applicators
27. Parts to convert conventional canned production to pop-top

## Disqualified Equipment

1. Forklifts
2. Totes
3. Tote dumpers
4. Feed hoppers
5. Workstands
6. Heading machines
7. Gutting machines
8. Tables
9. Knives
10. Spare parts
11. Pocket conveyors
12. Scrap or waste conveyors
13. Conveyors that only provide transportation
14. Blast freezers for predominately H&G
15. Plate freezers for predominantly green roe
16. Ice machines for predominantly H&G
17. Scales
18. Wall panels
19. Light fixtures
20. Plumbing
21. Building construction
22. Purchase price of a vessel
23. Pumps
24. Box strapping machines
25. Waste grinders
26. Canning machines
27. Metal detectors
28. Dud detectors
29. Retorts for conventional canning
30. Fish meal plant

Summary of Tom Sunderland's testimony to the Alaska House Fisheries Committee on HB 204.  
Testimony given Thursday, February 6, 2014

Ocean Beauty Seafoods is a shoreside processor with six plants in Alaska. Our hope is to use this tax credit to modernize our shoreside facilities that can salmon and herring. I am going to give a market-based testimony based on salmon.

The first thing to know about the existing Salmon Product Development Tax Credit is that it worked. It was successful in helping lift the industry out of a time of low value by helping processors to diversify product offerings, and through that product diversification, diversify markets. As a result the industry is far less vulnerable to being held hostage by overreliance on either a single market, such as Japan, or a single product form, such as traditional canned salmon.

This bill is necessary to defend these gains. We are now seeing the market push back against the higher prices our products now command. It is not the case that we can forever raise prices – consumers at some point will resist. They don't necessarily see the value in a tall can of red salmon or a four ounce package of smoked sockeye that approaches \$10.

Consumers don't buy these types of products by the pound, as they do fresh fish, but buy based on absolute price as they do with other packaged goods. Consider the examples of canned tuna or even breakfast cereal – those items routinely and successfully downsize their packaging as a way of mitigating absolute price on the shelf. Tuna is now sold in the US primarily in 5oz cans. The Australian tuna market is dominated by 95g (3.3 ounce) cans. They can do this much more easily than we can due to the year-round nature of their business and their location on road systems. We need this tax credit to give us the ability to respond to this market pressure and reduce the size of the cans and the shelf price. If we don't do this we risk becoming an irrelevant product to many consumers and retail customers.

While price is a primary motivator for this, price is not the only driver of this change. This move toward smaller cans is also driven by permanent household demographic changes: smaller households don't require as much food as larger ones. A smaller can is more convenient, results in less waste, costs less, and is therefore more attractive in most ways.

Gaining value from currently worthless byproduct is one of the best weapons we could have to defend the industry's price gains. We can't always expect the value of the flesh to appreciate, or to maintain current levels, but converting byproduct into saleable product is a pure win for the Alaskan industry and could hedge against price declines.

Byproduct utilization also provides us with the added benefit of keeping the EPA off of our back as they inevitably change remote discharge regulations. Every pound of byproduct we are able to manufacture into saleable product helps Alaska both directly through added value and by helping the industry deal with these new regulations.