

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

591 SCOM118: HOUSE SPECIAL COMM. ON PERMANENT FUND 1978-80

1 tence and wide experience in finance, investments, or other business
2 management-related field. No two members may be appointed to the board
3 who share substantially similar professional or occupational back-
4 grounds.

5 Sec. 37.13.090. QUORUM. Two members of the board constitute a
6 quorum for the transaction of business and the exercise of the powers
7 and duties of the board.

8 Sec. 37.13.100. COMPENSATION OF TRUSTEES. Members of the board
9 receive an honorarium of \$250 for each meeting day if they attend the
10 meeting and are entitled to per diem and travel allowances as provided
11 by law for members of state boards and commissions.

12 Sec. 37.13.110. EMPLOYMENT OF PERSONNEL. The board may employ and
13 determine the salary of an executive director. The executive director
14 may, with the approval of the board, select and employ additional staff
15 as necessary. No employee of the corporation, including the executive
16 director, may be a member of the board. The executive director and all
17 other employees of the board are in the exempt service under AS 39.25.

18 Sec. 37.13.120. CONFLICTS OF INTEREST. (a) Members of the board
19 are subject to the provisions of AS 39.50.

20 (b) If a member or employee acquires, owns or controls an in-
21 terest, direct or indirect, in an entity or project in which corporation
22 assets are invested, he shall immediately disclose the interest to the
23 board. The disclosure is a matter of public record and shall be in-
24 cluded in the minutes of the board meeting next following the disclo-
25 sure.

26 Sec. 37.13.130. POWERS AND DUTIES. (a) The prudent-man rule is
27 applicable to the board in the management and investment of permanent
28 fund assets. The prudent-man rule as applied to investments of the
29 corporation means that in making investments the board shall exercise

*What are the requirements
to keep minutes in a report to
stock holders - ~~of~~
residents*

1 the judgment and care under the circumstances then prevailing which an
2 institutional investor of ordinary prudence, discretion, and intel-
3 ligence exercises in the management of large investments entrusted to it
4 not in regard to speculation but in regard to the permanent disposition
5 of funds, considering the probable income from them as well as probable
6 safety of capital.

7 (b) The corporation assets may only be used for income-producing
8 investments.

9 (c) The board shall seek to maintain a reasonable diversification
10 among corporation investments unless under the circumstances it is
11 clearly prudent not to do so.

12 (d) The board shall submit long-range and quarterly investment
13 reports to the Investment Oversight Committee.

14 (e) The corporation may not borrow funds or guarantee from princi-
15 pal of the fund the obligations of others.

16 (f) The board may enter into and enforce all contracts necessary,
17 convenient or desirable for purposes of the corporation except it may
18 not contract with agencies or departments of the state to recommend or
19 select investments.

20 (g) Subject to (a) and (b) of this section, the board may invest
21 corporation assets in obligations of, or obligations insured or guaran-
22 teed by, the United States or agencies or instrumentalities of the
23 United States; loans secured by first liens on unencumbered realty or
24 leaseholds; corporate securities which under the Securities Act of 1933
25 are freely marketable; and short-term investments which meet the
26 requirements of (a) and (b) of this section except for the term of the
27 investments.

28 (1) No portion of the assets of the fund may be used in the
29 purchase of stock of a corporation which is not paying dividends on that

1 stock in cash at the time of purchase; nor in the purchase of bonds of
2 any corporation, upon which any regular interest payment has been de-
3 faulted within five years before purchase, except bonds never in default
4 but which have been outstanding for less than five years.

5 (2) No portion of the assets of the corporation may be used
6 for the purchase of stock if immediately following the purchase the
7 proportionate market value of all stocks held by the corporation would
8 exceed 30 per cent of the assets of the corporation.

9 (h) The board shall establish and from time to time as necessary
10 modify guidelines for the investment of the assets of the corporation.
11 Before adoption of any guidelines the guidelines shall be reported to
12 the Investment Oversight Committee for review and comment.

13 (i) Nothing in this section may be interpreted to preclude in-
14 state investments that have a risk level and expected yield comparable
15 to alternative investment opportunities.

16 Sec. 37.13.140. GAINS AND LOSSES. At the end of each fiscal year,
17 the total amount of losses on the sales of securities, not offset by
18 gains on the sales of securities during that year, shall be computed,
19 with a portion of these losses to be deducted each fiscal year from the
20 interest and dividend income and the resulting amount of interest and
21 dividend income added to the principal of the fund. Losses taken on the
22 sales of bonds shall be accumulated over a period equal to the average
23 remaining life of the bonds sold, and losses taken on the sales of
24 stocks shall be accumulated within a period of five years, unless these
25 losses are offset by gains on future sales of securities. In any fiscal
26 year in which the gains on the sales of securities exceed the losses on
27 the sales of securities, the excess shall be added to the principal of
28 the fund.

29 Sec. 37.13.150. INCOME. The interest and dividends received in a

1 year are the income of the corporation for that year. The income avail-
2 able for disbursement shall be determined on an averaging basis. For
3 the first five years, income will be the simple averaging of the annual
4 current return at cost. Subsequently, there will be a moving average
5 current return, in which the latest fiscal year will replace the oldest
6 year. The income available for disbursement will be the lesser of the
7 latest fiscal year's income, or the average annual current income for
8 the past five fiscal years of the fund at cost, and after adjustment for
9 capital losses charged to that fiscal year.

10 Sec. 37.13.155. MORTGAGE LOSS RESERVE ACCOUNT. The board may
11 establish a mortgage loss reserve account for the purpose of protecting
12 the financial integrity of the fund.

13 Sec. 37.13.160. BOARD BUDGET. The board's operating budget is
14 from the general fund and is subject to the Executive Budget Act (AS
15 37.07).

16 Sec. 37.13.170. AUDITS. The Investment Oversight Committee shall
17 provide for an annual post audit and annual operational and performance
18 evaluations of the corporation's investments and investment programs.

19 Sec. 37.13.180. REPORTS AND PUBLICATIONS. No later than Septem-
20 ber 30 of each year, the board shall publish a report of the corporation
21 for distribution to the governor, legislature, and the public. The
22 report shall be written in easily understandable language. The report
23 must include financial statements audited by independent outside audi-
24 tors, a statement of the amount of money received by the permanent fund
25 from each investment during the period covered, a statement of corpora-
26 tion investments including an appraisal at market value, a description
27 of corporation investment activity during the period covered by the
28 report, a comparison of the corporation performance with the intended
29 goals contained in AS 37.13.020, an examination of the impact of the

1 investment criteria of this chapter on the corporation portfolio with
2 recommendations of any needed changes and any other information the
3 board believes would be of interest to the governor, the legislature,
4 and the public. The annual income statement and balance sheet of the
5 corporation shall be published in at least one newspaper in each judi-
6 cial district. The income statement and balance sheet for the two
7 fiscal years preceding the publication of the election pamphlet under
8 AS 15.57 shall be included in that pamphlet. The board may also publish
9 other reports it considers desirable to carry out its purpose.

10 Sec. 37.13.190. TAX EXEMPTION. The corporation is exempt from all
11 taxes and assessments in the state. All security instruments issued by
12 the corporation, their transfer, and their income are exempt from all
13 taxes and assessments in the state.

14 Sec. 37.13.200. POLITICAL ACTIVITIES. The members of the board
15 and employees of the corporation may not engage in partisan political
16 activities. The resources of the corporation may not be used to finance
17 any partisan political activities.

18 Sec. 37.13.210. PUBLIC ACCESS TO INFORMATION. Information in the
19 possession of the corporation is a public record, except that infor-
20 mation which discloses the particulars of the business or affairs of a
21 private enterprise or investor is confidential and is not a public
22 record. Confidential information may be disclosed only for the purposes
23 of an official law enforcement investigation or when its production is
24 required in a court proceeding. These restrictions do not prohibit the
25 publication of statistics presented in a manner that prevents the iden-
26 tification of particular reports, items, persons, or enterprises.

27 Sec. 37.13.220. DEFINITIONS. In this chapter,

28 (1) "board" means the Board of Trustees of the Alaska Per-
29 manent Fund Corporation;

1 (2) "corporation" means the Alaska Permanent Fund Corpora-
2 tion.

3 * Sec. 4. AS 39.25.110 is amended by adding a new paragraph to read:

4 (22) members of the board of trustees, the executive director,
5 and staff of the Alaska Permanent Fund Corporation.

6 * Sec. 5. AS 39.50.200(9) is amended by adding a new subparagraph to
7 read:

8 (QQ) Board of Trustees of the Alaska Permanent Fund
9 Corporation.

10 * Sec. 6. TRANSITION. The commissioner of revenue shall transfer all
11 funds of the Alaska permanent fund to the Alaska Permanent Fund Corporation
12 established by this Act after request for transfer is made by the board of
13 trustees of the corporation.

14 * Sec. 7. AS 37.10.065(c) is repealed.

15 * Sec. 8. AS 37.10.065(a) and (b) are repealed.

16 * Sec. 9. Section 8 of this Act takes effect upon transfer of the funds
17 of the Alaska permanent fund to the Alaska Permanent Fund Corporation as
18 provided in sec. 6 of this Act. The remainder of this Act takes effect
19 immediately in accordance with AS 01.10.070(c).

PERMANENT FUND BALANCES
UNDER
ALTERNATIVE LEASING AND PERMANENT FUND SCENARIOS

Year	Bonus	Production	Royalty <u>12.5%</u>	Permanent Fund Contribution		Permanent Fund Balance	Permanent Fund Contribution		Permanent Fund Balance
				50% Bonus	30% royalties		50% Bonus	50% Royalties	
1	100.0			50.0		50.0	50.0		50.0
2						50.0			50.0
3						50.0			50.0
4						50.0			50.0
5						50.0			50.0
6		100.0	12.5	3.7		53.7	6.2		56.2
7		100.0	12.5	3.7		57.5	6.2		62.5
8		100.0	12.5	3.7		61.2	6.2		68.7
9		100.0	12.5	3.7		65.0	6.2		75.0
10		100.0	12.5	3.7		68.7	6.2		81.2
11		100.0	12.5	3.7		72.5	6.2		87.5
12		100.0	12.5	3.7		76.2	6.2		93.7
13		100.0	12.5	3.7		80.0	6.2		100.0
14		100.0	12.5	3.7		83.7	6.2		106.2
15		100.0	12.5	3.7		87.5	6.2		112.5
			<u>25%</u>						
1	0			-		-	-		-
2				-		-	-		-
3				-		-	-		-
4				-		-	-		-
5				-		-	-		-
6		100.0	25.0	7.5		7.5	12.5		12.5
7		100.0	25.0	7.5		15.0	12.5		25.0
8		100.0	25.0	7.5		22.5	12.5		37.5
9		100.0	25.0	7.5		30.0	12.5		50.0
10		100.0	25.0	7.5		37.5	12.5		62.5
11		100.0	25.0	7.5		45.0	12.5		75.0
12		100.0	25.0	7.5		52.5	12.5		87.5
13		100.0	25.0	7.5		60.0	12.5		100.0
14		100.0	25.0	7.5		67.5	12.5		112.5
15		100.0	25.0	7.5		75.0	12.5		125.0

HOUSE SPECIAL PERMANENT FUND COMMITTEE

11 April 1979 -- Mark-up

HB 281

Sec 1 Investment Oversight Committee.

- Speaker, President, + 3 members each house.
- Oversight and audit function for investment of all state funds.
- Recommendations on confirmation and investments.
- Powers similar to Legislative Budget & Audit otherwise.

OPTIONS

- HB 281 (Investment Oversight Committee).
- Delegate to existing LB&A Committee.
- Delegate to standing committees (Finance).
- Delete function.

Sec 2 Report by Governor on investments as part of budget message.

OPTIONS

- Delete (means using existing reporting by agencies).

Sec 3 Alaska Permanent Fund (37.13 - new chapter).

010 APF contributions to principal.

- 100% mineral lease bonuses (net of other deductions).
- 30% royalties, rentals, federal revenues
(5% above existing rate, about \$18-20 million per year today).
- Other appropriations or contributions by law.
- Payments to principal monthly (same as present schedule).
- Management will be by APF Corporation (now function of Department of Revenue).

020 Findings on APF.

030 Purpose.

- * Strike "primary", P. 6 L. 29.

040 Establishes Corporation as separate entity, within Department of Revenue

050,60,70 Establishes 3 member Board of Trustees, appointed by Governor, confirmed by legislature.

- * Increase Board?
- * Confirmation and removal requirement may be challenged by executive.

080 Qualifications of Board.

- * Perhaps (c) should be deleted.

130

- P. 10 L. 13, reference to Investment Oversight Committee.
- * P. 10 L. 18, word "not" questioned.
- P. 10 L. 20, eligible investments gives broader range than current law (see separate sheet comparing).
- P. 11 L. 12, Investment Oversight Committee.

140 Gains and losses.

Provides that capital gains and losses be netted out, remaining losses to be made up over time. Remaining capital gains become part of principal.

150 Provides for calculating income as lesser of current income or 5 year average. Income from interest and dividends only, after adjustment for losses charged to that year.

160 Operating expenses.

- * General Fund or Permanent Fund income?

170 Reference to Investment Oversight Committee.

200 Political activity.

- * First sentence may be useless.

* items refer to problems or questions raised previously and noted here for your consideration.

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) loans secured by first liens on un-encumbered realty or leaseholds;

(3) corporate securities which under the Securities Act of 1933 are freely marketable;

(4) short-term investments which meet the requirements of (a) and (b) of this section except for the term of the investments.

((a) and (b) require the investments to be income-producing and prudent.)

(1) obligations of, or obligations insured or guaranteed by, the United States or agencies or instrumentalities of the United States;

(2) obligations secured by reserves paid in by the United States or agencies or instrumentalities of the United States or obligations of corporations in which the United States is a shareholder or member;

(3) certificates of deposits issued by United States domestic banks which are members of the Federal Deposit Insurance Corporation and secured as to the payment of principal and interest in accordance with Alaska law;

(4) corporate investment-grade securities;

(5) bankers' acceptance drawn on and accepted by United States banks which each have a combined capital and surplus aggregating at least \$100,000,000;

(6) repurchase agreements, the securities underlying the agreements being any of the items in (1) — (5) of this subsection;

(7) deposits of federally insured savings and loan associations not to exceed 10 per cent of each savings and loan association's deposits exclusive of federal, state, and municipal deposits;

(8) fixed-term certificates of debentures of federally insured credit unions not to exceed 10 per cent of each credit union's shares.

The case for a specific, restricted list of investments is that it reduces the risks that can be taken by the fund and lessens the skills that are required of the fund managers.

The case for a general list of (trust grade) investments is that it will allow the managers to adjust to market changes and seek more than minimal returns, e.g. Treasury bills, which are issued for up to one year, have ranged from 3% to 9% and back over the past decade. As for the sound performance of the managers, that is favored by having a bottom-line that can be measured by national standards, by the fund's ability to pay salaries above the civil service rate, and by the fund not being forced to accept loans from state programs.



Alaska State Legislature

House

April 3, 1979

JUNEAU ALASKA

MEMORANDUM

TO: The Honorable Ernie Haugen
House Finance Committee

FROM: Milt Barker, ^{AB} Fiscal Analyst
Legislative Finance Division

SUBJECT: Power Project Financing

Following is a summary of the various funding sources and mechanisms that might be used to finance power projects:

1. General Funds can be appropriated to fund entire projects, front-end costs (reconnaissance and feasibility studies, engineering, etc.), reserves for revenue bonds, or partial project costs. Appropriation of general funds can be designated as coming from the reserve for energy facilities development account which is allocated 5% of mineral rents, royalties, and bonuses, or the reserve for capital outlay account which is allocated 25% of mineral revenues.

If the appropriation is made as a grant, it should probably be viewed as a subsidy. This would allow undertaking of projects that would not otherwise occur, although it is conceivable that a project would be subsidized even if capable of being conventionally financed in order to lower costs to users, say to fight inflation or provide or promote economic development.

If the general funds are appropriated as a loan or to the power project revolving fund or water resources revolving fund to be passed on as a loan which will ultimately be paid back out of project revenues, the appropriation may or may not involve a subsidy depending on the terms of the loan.

The payback of loans from these revolving funds will eventually create another source of funding; however, at present there are essentially no unloaned funds in these revolving funds.

2. Revenue bonds can be sold by the State or the Alaska Power Authority for construction costs. If the State were to combine its full faith and credit with the pledged revenues in a "double-barreled" bond a lower interest rate could be obtained. (See attached materials on HB 241 which proposes this combined revenue-general obligation bond.) Such bonds would need voter approval.

3. Guarantees of revenue bonds have been proposed from permanent fund income in HB 414. Bond underwriters estimate this technique could get interest rates down to within 1/4 to 1/2 of a percentage point of G.O. bonds. The advantage of this proposal is that permanent fund income is the only available source of revenue that can legally be dedicated, thus avoiding the necessity of making a large appropriation to a reserve or guarantee fund to assure the bondholder of monies to be paid in the event of a default.

4. Subsidies of revenue bonds are proposed in CSHB 414 (attached) by setting aside 50% of permanent fund income for guarantees of bonds for which it is estimated that project revenues will not be sufficient to pay debt service.

5. G.O. bonds or double-barrel bonds could be issued for projects that were not capable of paying the debt service. This would be another way of providing subsidies where needed and determined to be appropriate.

6. A loan can be made from the permanent fund principal. However, it will usually be cheaper for the State to issue bonds, at least G.O.'s or guaranteed revenue bonds, at tax-exempt interest rates of say 6% than to appropriate or loan their general and permanent funds which can be invested in taxable securities earning more like 8%.

7. The Alaska renewable resources corporation could fund power projects from their 5% of mineral revenues; however, generally their mandate is to assist innovative projects rather than standard hydroelectric facilities.

MBB:pw

Attachments

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

February 22, 1979

John Nuveen & Co. Incorporated
209 South LaSalle Street
Chicago, Illinois 60604

C. Richard Walker
Orrick, Herrington, Rowely & Sutcliffe
600 Montgomery Street
San Francisco, California 94111

Subject: HB 241

The enclosed bill is now pending before the House Finance Committee and in preparation for discussion on the bill, I am requesting your official opinions on the following:

For John Nuveen & Co. response:

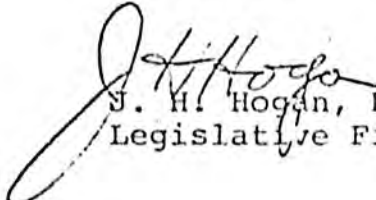
Would a pledge of the "State's full faith, credit and resources" and a pledge of specific program revenues to a bond issue create a problem in marketing bonds issued subject to this proposed provision?

For Orrick, Herrington, Rowely & Sutcliff response:

Would the proposed language have an adverse effect upon the current tax exempt status of State of Alaska general obligation bonds?

Since the measure is currently under consideration by the House Finance Committee and the Legislature is generally concerned with an expeditious handling of this year's business, we would appreciate your comments on these and any other points you might feel important as soon as possible.

Sincerely,


J. H. Hogan, Director
Legislative Finance Division

Enclosure: HB 241

CC: John Messenger, Acting
Commissioner of Revenue

ORRICK, HERRINGTON, ROWLEY & SUTCLIFFE
COUNSELORS AND ATTORNEYS AT LAW

ELEVENTH FLOOR
600 MONTGOMERY STREET
SAN FRANCISCO, CALIFORNIA 94111
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CABLE "ORRICK"
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WILLIAM G. HOFFE
SIDNEY E. ROBERTS
JAMES H. BENNETT
C. RICHARD WALKER
JAMES F. CRAFTS, JR.
JAMES K. HAYNES
RICHARD C. SALLADIN
RICHARD J. LUCAS
CARLO S. FOWLER
DONALD A. SLICHTER
PAUL A. WEBER
JAMES R. MADISON
BILLYAN C. KINSELL, JR.
WILLIAM L. HOISINGTON
THOMAS R. SHEARER, JR.
CAMERON W. WOLFE, JR.
RALPH C. WALKER

M. PETER ULLEVAND
WILLIAM E. DONOVAN
ROBERT J. GLOSTEIN
W. REECE BADER
PAUL J. SAK
MARTIN L. B. CATTANI
WILLIAM L. RILEY
E. THOMAS URTMAN
EDWARD B. ROBIN
JACK E. FERGUSON
ALVIN W. FARGO III
JACK E. OWENS
WILLIAM F. ALDERMAN
RICHARD E. V. HARRIS
G. KIP EDWARDS
RAYMOND G. ELLIS
STEVEN A. BRICK
JOHN F. SEEDAL

February 27, 1979

Mr. J. H. Hogan
Director
Legislative Finance Division
State of Alaska
Pouch WF, State Capitol
Juneau, Alaska 99811

Re: House Bill No. 241

Dear Mr. Hogan:

I received your letter of February 22 yesterday.
In response to your question:

The federal income tax status of state and local government bonds must be determined individually by each issue or series. I can imagine general obligation bonds additionally secured by revenues which would be taxable "industrial development bonds" under the rules of the Internal Revenue Service. I can also imagine general obligation bonds additionally secured by revenues on which the interest would be exempt from federal income taxation. If a future issue of bonds pursuant to House Bill No. 241 were held to be taxable, that would not affect the tax status of any other general obligation bonds of the State.

More generally, this bill seems to me to state only the bare bones of the idea. If it is being seriously considered, you may wish to expand the language of the bill to more adequately provide for general obligation bonds additionally secured by revenues. In that connection, I am enclosing a copy of a comparable California statute.

Sincerely yours,

C. Richard Walker

cc: Mr. John R. Messenger

Enclosure

(c) "Legislative body" means the legislative body of the local agency as defined in Section 53000.

(d) "Revenue-producing facility" means an improvement, works, system or facility furnishing or providing services or products for which the local agency is authorized to impose a charge.

(e) "Pledge" means pledge, assign, place a charge upon and place a lien upon. (Added Stats. 1961, c. 1157, p. 2900, § 1.)

Library references: Statutes 179; C.J.S. Statutes § 315; Words and Phrases (Perm. Ed.)

§ 53501. Applicability of article. This article applies to all local agencies which have the power to issue general obligation bonds to acquire, construct or finance a revenue-producing facility. (Added Stats. 1961, c. 1157, p. 2900, § 1.)

§ 53502. Authority of legislative body to pledge revenues. In any ordinance, resolution, order or indenture providing for the issuance of general obligation bonds of a local agency to provide funds for the acquisition, construction or financing of a revenue producing facility or any addition to, or extension or improvement of a revenue-producing facility, the legislative body of the local agency may pledge all or any part of the revenues of such facility to the payment or security of such general obligation bonds and the interest thereon in such manner and upon such terms as the legislative body may deem advisable. (Added Stats. 1961, c. 1157, p. 2900, § 1.)

Notes of Decisions

Library references

Counties 187.
Municipal Corporations 950(15).
C.J.S. Counties § 276.
C.J.S. Municipal Corporations § 1057.

1. In general

The 1956 bonds issued by Department of Airports of City of Los Angeles were not payable out of airport revenue fund, and therefore 1963 amendment of city charter to eliminate requirement that all of fund, after payment of certain current

expenses, should be set aside for payment of 1956 bonds did not impair security of 1956 bonds, where bonds on their face stated that they were issued in compliance with § 43600 et seq., that did not indicate that any particular fund should constitute security for indebtedness, and face of each bond contained unconditional promise of city to pay bearer amount stated on presentation and surrender of bond. City of Los Angeles v. Dannenbrink (1965) 44 Cal.Rptr. 624, 234 C.A.2d 642.

§ 53503. Terms of pledge; powers of legislative body. In connection with such pledge the legislative body may provide in such ordinance, resolution, order or indenture such covenants, promises, restrictions and provisions as it may deem necessary or desirable including, but not limited to, covenants, promises, restrictions and provisions relating to the use of bond proceeds, the maintenance, opera-

§ 53503

CITIES, COUNTIES, ETC.

Title 5

tion and preservation of such facility, the rates and charges to be established and collected for the services or products furnished or provided by such facility, the incurring of additional indebtedness payable from such revenues, and the establishment, maintenance and use of reserve funds, sinking funds, interest and redemption funds, maintenance and operation funds and other special funds for the payment or security of the bonds and the interest thereon. In connection with such pledge and in connection with such covenants, promises, restrictions and provisions the legislative body shall have, but shall not be limited to, the powers specified in the Revenue Bond Law of 1941 (Chapter 6 of this part). (Added Stats.1961, c. 1157, p. 2901, § 1.)

Notes of Decisions

1. In general

The 1956 bonds issued by Department of Airports of City of Los Angeles were not payable out of airport revenue fund, and therefore 1963 amendment of city charter to eliminate requirement that all of fund, after payment of certain current expenses, should be set aside for payment of 1956 bonds did not impair security of 1956 bonds, where bonds on their face stated

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§ 53504. Pledge and payment and security provisions additional to existing law. The pledge and the payment and security provisions authorized by this article shall be in addition to, and not in derogation of, any provisions permitted or required by law, charter or the Constitution of the State of California relating to payment of general obligation bonds from the proceeds of ad valorem taxes or ad valorem assessments and relating to the levy and collection of such taxes or assessments. (Added Stats.1961, c. 1157, p. 2901, § 1.)

Notes of Decisions

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§ 53505. Statement of intention. If the legislative body intends to exercise the powers granted by this article it shall make a statement of such intention in any ordinance, resolution or order calling or providing for an election to authorize the general obligation bonds for a revenue producing facility. Such statement may be general only or

nuveen

John Nuveen & Co. Incorporated

209 South LaSalle Street, Chicago, Illinois 60604

(312) 621-3000

March 1, 1979

J. H. Hogan, Director
Legislative Finance Division
The Legislature
State of Alaska
Pouch "WF" - State Capitol
Juneau, Alaska 99811

Subject: HB 241

Dear Mr. Hogan:

Your letter of February 22 requested a response from us to the question of possible marketing problems for bonds of the State of Alaska carrying both a full faith, credit and resources pledge and a pledge of specific program revenues.

The short answer is there should be no marketing problems if such a provision were included on certain State bonds. This is not an unusual provision with respect to municipal bonds. It is used less perhaps in financing state projects than it is in financing local government projects. A bond of this type is typically referred to as "double barreled," referring to the two different sources of security.

Acceptance in the marketplace varies, however, from issue to issue depending on the investors' analysis of the quality of the two pledges. If the full faith and credit pledge of an issuer is small relative to the size of the project being financed, then the specific program revenues pledged would be the determining factor and the bonds would sell like revenue bonds. On the other hand, with the substantial impact of a large tax base vis-a-vis the amount of debt service required for the project, then the bonds would trade like general obligation bonds.

A further factor should be kept in mind: if bonds of this type can be shown to be adequately serviced from the specific revenues pledged, most analysts and investors would remove the amount of such bonds from the full faith and credit debt when analyzing such debt, even though there would remain the liability of the full faith and credit to service the bonds in the event that the specific revenues fell short. A few analysts, however, would say that since the bonds carry the full faith and credit, they must be included in the general obligation debt totals. I believe, however, that this is a

J. H. Hogan, Director
Legislative Finance Div.
State of Alaska

- 2 -

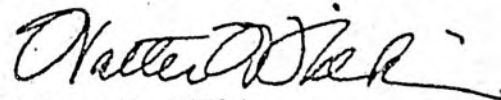
March 1, 1979

minority view. As long as a conservative analysis would indicate that bonds could reasonably be expected to be paid from the specifically pledged revenues, I believe that a general obligation debt statement would not be impacted by that debt.

If you need further discussion of this subject, please don't hesitate to let me know.

Sincerely,

JOHN NUVEEN & CO. INCORPORATED



Walter W. Filkin
Vice President & Manager
Public Finance Department

WWF:RMc

cc: John Messenger, Acting
Commissioner of Revenue

Benier

Original sponsor: Gardiner

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 241

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to state bonding."

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

8 * Section 1. AS 37.15.010 is amended by adding a new subsection to read:

9 (b) General obligation bonds issued for acquiring, constructing,
10 improving and equipping a state-owned utility or other revenue-generat-
11 ing enterprise may be additionally secured by a pledge of the revenue
12 derived from operation. The bonds may contain the covenants which the
13 state bond committee considers advisable concerning

14 (1) the rates or fees to be charged for services rendered by
15 the public facilities, the revenue of which is pledged to the payment of
16 the bonds;

17 (2) the deposit and use of the revenue of the public facili-
18 ties;

19 (3) the issuance of additional bonds payable from revenue of
20 the public facilities;

21 (4) the rights of the bondholders in case of default in the
22 payment of the principal or interest on the bonds, including the appoint-
23 ment of a receiver to operate the public facilities;

24 (5) other covenants as the state bond committee determines.
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1 IN THE HOUSE

BY THE SPECIAL PERMANENT
FUND COMMITTEE

2 CS FOR HOUSE BILL NO. 414

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 ELEVENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 for an Act entitled: "An Act relating to income of the Alaska permanent
7 fund; and providing for an effective date."

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

9 * Section 1. AS 37.13 is amended by adding new sections to read:

10 Sec. 37.13.190. PERMANENT FUND INCOME. Income from investments
11 of the permanent fund becomes part of the permanent fund and shall be
12 deposited in the permanent fund annually. The income may be used to
13 provide for guarantees of indebtedness issued by governmental agencies
14 of the state for power projects.

15 Sec. 37.13.200. GUARANTEES OF INDEBTEDNESS. The Board of Trustees
16 of the Alaska Permanent Fund Corporation is authorized to enter into
17 agreements with any public authority of this state or any municipality
18 or other governmental agency of the state, providing for a guarantee of
19 the payment when due, whether at maturity or by sinking fund redemption
20 but not by acceleration of maturity, of the principal of and interest on
21 bonds, notes or other indebtedness issued to finance projects for con-
22 struction of electric generating and related transmission facilities,
23 this guarantee to be payable solely from the income derived from the
24 Alaska permanent fund established by AS 37.13.010 (other than income
25 derived from the Alaska enterprise development fund established by AS
26 44.55.010). The agreements shall contain such terms, provisions, and
27 covenants in furtherance of the purposes of AS 37.13.190 - 37.13.240 as
28 the board of trustees determines.
29

1 Sec. 37.13.210. SUBSIDIES OF INDEBTEDNESS. The board shall
2 require as a condition of a guarantee an analysis which compares the
3 anticipated revenues from the project which will be available after
4 payme of estimated expenses of operation and maintenance to an
5 assumed schedule, approved by the board, of debt service which would
6 be payable if the bonds, notes or other indebtedness were publicly
7 marketed with a guarantee under AS 37.13.200. If the net revenues
8 available in any year are less than the required debt service, the
9 bonds, notes, or other indebtedness to be guaranteed shall be con-
10 sidered subsidized.

11 Sec. 37.13.220. LIMITATION ON INDEBTEDNESS. Bonds, notes or
12 other indebtedness which are not subsidized may not be guaranteed
13 under AS 37.13.200 unless the board determines that the debt service
14 for any year for all bonds, notes and other indebtedness guaranteed
15 but not subsidized will not exceed fifty per cent of the amount of
16 annual income estimated by the board to be derived during that year
17 from the Alaska permanent fund (other than income from the Alaska
18 enterprise development fund). Bonds, notes, or other indebtedness
19 which are subsidized may not be guaranteed unless the board determines
20 that the debt service for any year for all subsidized bonds, notes and
21 other indebtedness guaranteed will not exceed fifty per cent of the
22 amount of annual income estimated by the board to be derived during
23 that year from the Alaska permanent fund (other than income from the
24 Alaska enterprise development fund). The determinations shall be made
25 by resolution of the board before the execution of a guarantee
26 agreement under AS 37.13.200.

1 Sec. 37.13.230. GUARANTEE ENDORSED. A bond, note or other
2 indebtedness guaranteed under AS 37.13.200 shall have on its face an
3 endorsement of the guarantee by the chairman of the board or his
4 designee.

5 Sec. 37.13.240. LEGISLATIVE APPROVAL. No bond, note or other
6 indebtedness may be guaranteed by the board under AS 37.13.200 until
7 the facilities to be financed with the proceeds of the bonds, notes
8 or other indebtedness have been approved by the legislature by con-
9 current resolution. If the bonds, notes, or other indebtedness to
10 be guaranteed are considered subsidized under AS 37.13.210, the
11 resolution shall state the total subsidy estimated to be paid to the
12 facilities during the life of the bonds, notes, or other indebtedness.

13 * Sec. 2. AS 44.56.090 is amended to read:

14 Sec. 44.56.090. POWER CONTRACTS AND THE ALASKA PUBLIC UTILITIES
15 COMMISSION. (a) The authority shall, in addition to other methods
16 which it may find advantageous, provide a method by which municipal
17 electric, rural electric, cooperative electric, or private electric
18 utilities and regional electric authorities, or other persons
19 authorized by law to engage in the distribution of electricity may
20 secure a reasonable share of the power generated by a project, or any
21 interest in a project, or for any right to the power and shall sell
22 the power or cause the power to be sold at the lowest reasonable
23 prices which cover the full cost of the electricity or services,
24 including capital and operating costs, debt coverage as considered
25 appropriate by the authority, and other charges that may be
26 authorized by this chapter. Power from a project financed with
27 bonds subsidized under AS 37.13.210 may be sold or caused to be sold
28 by the authority at prices which do not cover the full cost of the
29

1 electricity or services. A contract for the sale, transmission
2 and distribution of power generated by a project or any right to the
3 capacity of it shall provide:

4 (1) for payment of all operating and maintenance expenses of a
5 project and costs of renewals, replacements and improvements of it;

6 (2) unless the bonds of the authority issued for the project
7 are subsidized under AS 37.13.210, for interest on and amortization
8 charges sufficient to retire the bonds (OF THE AUTHORITY ISSUED FOR
9 THE PROJECT) and reserves for them, plus a debt service coverage
10 factor as may be determined by the authority to be necessary for the
11 marketability of its bonds;

12 * Sec. 3. AS 44.56.110(b) is amended to read:

13 (b) Notwithstanding any other provisions of this chapter, the
14 trust agreement shall contain a covenant by the authority that it will
15 at all times maintain rates, fees or charges sufficient to pay, and
16 that a contract entered into by the authority for the sale, trans-
17 mission or distribution of power shall contain rates, fees or charges
18 sufficient to pay the costs of operation and maintenance of the
19 project, and, unless the bonds are subsidized under AS 37.13.210,
20 sufficient to pay the principal of and interest on bonds issued
21 under the trust agreement as the same severally become due and payable,
22 to provide for debt service coverage as considered necessary by the
23 authority for the marketing of its bonds and to provide for renewals
24 replacements and improvements of the project, and to maintain reserves
25 required by the terms of the trust agreement.

26 * Sec. 4. AS 44.56.130(b) is amended to read:

27 (b) The bonds issued by the authority, unless they are
28 guaranteed under AS 37.13.190-240, do not constitute an indebtedness
29 or other liability of the state or of a political subdivision of

1 the state, except the authority, but shall be payable solely from the
2 income and receipts or other funds or property of the authority. The
3 authority may not pledge the faith or credit of the state or of a poli-
4 tical subdivision of the state, except the authority, to the payment
5 of a bond and the issuance of a bond by the authority does not directly
6 or indirectly or contingently obligate the state or a political
7 subdivision of the state to apply money from, or levy or pledge any form
8 of taxation whatever to the payment of the bond.

9 * Sec. 5. AS 44.56.180(b) is amended to read:

10 (b) Upon completion of the reconnaissance study, the authority
11 shall submit to the governor and the legislature a statement of its
12 recommendations for financing each new project. The financing plan
13 may include a recommendation for a guarantee of indebtedness or a
14 general fund appropriation only when necessary to supplement private
15 financing in order to make a project financially feasible. If the
16 recommended financing for the project includes a guarantee of in-
17 debtedness by the permanent fund or an appropriation from the general
18 fund, the legislature must first give its approval by joint resolution
19 before the authority may proceed with the engineering or design
20 phase of the project. The legislative approval required in this
21 subsection may not be considered the approval required under (AS
22 37.13.230) AS 37.13.240 for granting of a permanent fund guarantee.

23 * Sec. 6. This Act takes effect upon the effective date of a version
24 of House Bill No. 281 establishing the Alaska Permanent Fund Corporation.
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SSHJR
39"JOINT CHAIRMANS' REPORT ON
CS SSHJR 39

The Finance and Judiciary Committees of the House have each considered individually SS HJR 39, transmitted to the House by the Governor on January 15, 1976. The House Judiciary Committee, in unanimously adopting and reporting out a Judiciary Committee Substitute, incorporated amendments adopted by both the Finance and Judiciary Committees. CS SSHJR 39 is addressed in this joint report so that the intent of the constitutional amendment proposed by the resolution is clear.

The proposed constitutional amendment, which both committees view as of vital importance to the state, would establish an Alaska Permanent Fund into which 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, bonuses and all mineral production taxes would automatically be placed.

The committee substitute raises from 15 to 25 the percentage of nonrenewable resource revenue to be dedicated. This change was made after the committees' concurrence with the Governor that the 25 percent level of funding would allow flexibility in future budgeting of state expenditures even if the most conservative case for future state revenue projections proves true. On the other hand, sufficient income would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the state's nonrenewable resources.

The word "all" has been added before the words "mineral production taxes" in sec. 15 of the proposed constitutional amendment so that it is clear that all future taxes measured by mineral production or severance are included in this provision of the Constitution. The addition of the word "all" does not include property taxes. Examples of taxes included under sec. 15 include Oil and Gas Property Production Tax, AS 43.55 and the Oil and Gas Regulation and Conservation Tax, AS 43.57. Taxes which are not included are Oil and Gas Exploration, Production and Pipeline Transportation Property Taxes, AS 43.56 and Oil and Gas Reserves Ad Valorem Tax, AS 43.58.

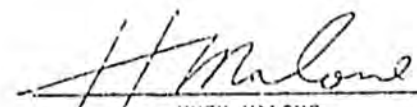
In regard to both mineral leasing and mineral production taxes, the amount to be placed in the Fund would be based upon the gross amount to be received by the state. Accordingly, twenty-five percent of the gross amount of these revenues would be paid into the fund even though a portion of these revenues will be paid into the Alaska Native Fund as required by law.

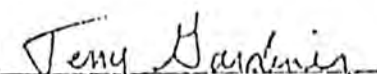
In the event royalties are taken in kind, 25 percent of the proceeds from their sale would be placed in the fund. Also, revenue sharing payments which the state receives from federal mineral leasing would be dedicated.

The principal of the fund would be used only for investment in income-producing investments which the legislature would establish and change from time to time to meet the needs of the state. The fund would come into existence and accumulate 25 percent of all nonrenewable source revenues received by the state 90 days after the certification of the 1976 election returns by the lieutenant governor. It is the purpose of the delayed effective date to allow the legislature to provide by law for an investment structure for the Alaska Permanent Fund.

The purpose of the language in the last sentence of the resolution is to give future legislatures the maximum flexibility in using the fund's earnings -- ranging from adding to fund principal to paying out a dividend to resident Alaskans.

The fiscal note provides for an interim study and development of alternative investment goals and structures for the fund to be performed jointly by executive and legislative staff under the direction of the State Investment Advisory Committee.


HUGH MALONE
Chairman House Finance Committee


TERRY GARDINER
Chairman House Judiciary Committee

The State Affairs Committee has had HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United States Department of Transportation to transfer Southeast Alaska from the Pacific Standard Time Zone to the Yukon Standard Time Zone) under consideration and a majority of the members of the committee recommends it be replaced with COMMITTEE SUBSTITUTE FOR HOUSE JOINT RESOLUTION NO. 41 (Requesting the Secretary of the United States Department of Transportation to revise the standard time zones in which Alaska is located) and that it do pass. The report was signed by Mr. McKinnon, Chairman, and concurred in by Parker, Wallis, Fischer and Miller. Not concurring was McKinnon who has no recommendation.

Mr. Malone moved and asked unanimous consent that the Finance Committee referral on HOUSE JOINT RESOLUTION NO. 41 be waived. There being no objection, it was so ordered and the resolution was referred to the Rules Committee for placement on the calendar.

STATE
of ALASKA

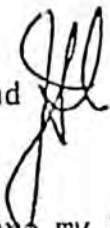
MEMORANDUM

TO: [Senator Clem Tillion

DATE: April 17, 1979

FILE NO:

TELEPHONE NO:

FROM: Governor Hammond SUBJECT: Permanent Fund Legislation;
Loan Programs

The following are my bottom line concerns regarding permanent fund enabling legislation and reorganization of the loan programs. I will be flexible regarding details and other aspects of the legislation, but I hope to see the following principles incorporated into any permanent fund legislation which arrives on my desk.

Permanent Fund

1. The permanent fund should be managed as an inviolable trust fund. This means that these funds should be invested in a safe, secure manner to provide a relatively certain flow of income. The principal of the permanent fund may not be used as a guarantee for any debt nor may the fund be used to guarantee debt of its own.
2. 50% of income return to general fund and 50% of income for specific programs as designated by the legislature, such as guarantees for hydro projects, guarantees for state loans, dividends to Alaskans (Ak., Inc.), provided that at a minimum of 25% of earnings would be returned to Alaskans.
3. Investment of permanent fund principal should be based on a list of eligible investments identified as appropriate with respect to risk level and return to the fund.
4. All permanent fund investments should yield a market rate of return.
5. Fund managers should be limited to operating within the guidelines specified in enabling legislation. They are not to be responsible for designing or implementing social or economic policy outside of their specific mandate.
6. No reorganization of state government for loan programs.
7. Increase contribution rate of 50% of bonuses and royalties, at a minimum.
- 8.

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

JAY S. HAMMOND, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
POUCH SB
JUNEAU, ALASKA 99811

April 9, 1979

Representative Hugh Malone, Chairman
House Special Committee on the Permanent Fund
Pouch V
Juneau, Alaska 99811

Dear Representative Malone:

You have asked under what conditions would existing law (AS 37.10.065(a)) permit a Permanent Fund investment in the proposed Gas Pipeline. It is possible that such an investment could be made given the following conditions:

1. A guarantee by the United States government or an agency or instrumentality of the United States government that covers all debt service on an obligation issued to finance pipeline construction; or,
2. A rating of Baa or better on an obligation issued to finance pipeline construction.

I must emphasize that it is only theoretically possible that the Permanent Fund would invest in the project and that it is not at all likely that the Fund would do so. An investment of the size necessary for this project would not be compatible with management of a fiduciary trust which requires reasonable diversification of investments.

If I can be of any further help, please do not hesitate to contact me.

Sincerely,



Peter A. Bushre
Deputy Commissioner

PAB:ms

52

TESTIMONY BEFORE THE HOUSE
SPECIAL PERMANENT FUND COMMITTEE

By Clark Gruening

March 30, 1979

Mr. Chairman, committee members, friends, and former colleagues, I understand that you're about to go into what's known as "mark-up" on the various Permanent Fund proposals before you. As I recall, mark-up takes place when you've heard every conceivable bit of advice as to what you ought to do, and now it's your turn to do what you think should be done. Having been through this exercise myself once or twice, I hope I can share with you some basic references I found helpful in sorting out all the information and issues.

The two basic references I find helpful are: first, Section 15, Article IX of the State Constitution creating the Alaska Permanent Fund and those major principles Alaskans have told us they wanted written into any permanent fund legislation.

Before reflecting further on those basic references, one preliminary question needs to be addressed. This question will undoubtedly arise among that group known as "the body at the other end of the hall." That is, does there need to be any action this session to establish in law more definite

management and investment guidelines. This question is sometimes phrased as, what's wrong with letting the Department of Revenue go on doing as it has been doing with the Permanent Fund money.

Why is it better that a comprehensive Permanent Fund management bill pass sooner than later? In the first place, the passage of time is not going to make the legislature's decision any easier. As the size of the Permanent Fund grows, so will the number of lobbying groups which seek special uses of the money. The pressure will grow in proportion to the size of the Permanent Fund.

We would do well to take a leaf from our own State Constitutional Convention, which in 1955 and 1956 worked under the advantage of writing the Constitution in the relatively uncharged political atmosphere. That is not to say that the Constitutional debates were not spirited, heated, and arduous. But in the main, those debates focused on matters of long-term policy and not short-term political expediency. The hard work of the many eminent Alaskans who were delegates to the Convention was viewed by some as an academic exercise since, at the time of their deliberations, statehood for Alaska was still a major uphill battle to be won in Congress. Yet the delegates took their jobs seriously and were able to produce, in a relatively unpressured atmosphere, a document that is widely admired as a model Constitution.

In regard to the Permanent Fund, I have heard the comment more than once that the legislature really doesn't need ^{to make} a more definite and clear statutory statement of Permanent Fund management structure and investment guidelines until the fund grows to a size in which it can "really do something."

I firmly believe we need better guidelines than those stated presently in A.3. 37.10.065--otherwise known as the interim management statute. I disagree with the statement in the Governor's letter of transmittal for the administration's Permanent Fund proposal that this statute is adequate for the management of the basic 25 percent. If you also believe that the interim management statute can be improved, the time to do it is now before the pressure is really upon the administration and the legislature for bills to meet competing demands for immediate disbursement of Permanent Fund money for this or that project.

What are, then, the critical elements, not now in law, that a Permanent Fund management bill should contain? This brings us back to those basic references I referred to. After the passage to the constitutional amendment in November of 1976, public hearings were held, questionnaires were sent out, and both the House and Senate committees working on Permanent Fund legislation received testimony of statements both on how the fund should be specifically invested, what

should be the basic management concept. Even if there appeared to be no consensus on what the specific Permanent Fund investments ought to be, there appear to me to be a clear view by Alaskans on those general principles under which the fund should be managed.

In my view the five main principles emerging from the Alaska public can be simply stated as follows:

First, the Permanent Fund should serve as a safe depository for mineral revenues and not used for current expenditures;

Second, the mineral revenues placed in the Permanent Fund (the principal of the fund) should stay there and not be dissipated by using it to pay for operations of state government or by investing it unwisely;

Third, where there are sound investments in Alaska the Permanent Fund should make them without duplicating financial services already available;

Fourth, money earned by the Permanent Fund investments (the earnings or income) should be used for the benefit of current and future Alaskans; and

Fifth, the day-to-day management of the Permanent Fund should be insulated from politics but the management should be accountable to the public in matters of policy and performance.

Some of these principles are in a large degree mandated by a plain reading of the constitutional amendment. In reviewing A.S. 37.10.065, it's obvious that no attempt was made to write these principles into the law. It should

be noted, however, that this statute was only intended as an interim measure passed on the heels of the amendment in order to authorize somebody to invest the first Permanent Fund money.

What is critically important now is that a definite statement of investment management goals be stated in law.

The present list of investments is limited to mostly so-called "money market instruments" which, by their nature, preclude a larger portion of Permanent Fund money from being invested in Alaska even though undoubtedly many investments can be safely made in Alaska.

Another major problem with the interim management statute is that it authorizes management by the Department of Revenue. A primary function of that Department is to ensure that sufficient revenue is available from the General Fund to meet on-going state expenditures. In other words, of necessity, the General Fund is of primary concern to the Commissioner of Revenue. This is as it should be since it is the General Fund which will continue to be the largest repository of public money and the sole source of revenue for operation of state government.

Without being critical of any person or policy of the Department of Revenue, I have no doubt that had the interim statute permitted the Commissioner of Revenue to

purchase state loans with Permanent Fund money that past and current General Fund cash crunches would have sorely tempted the Commissioner to sell the least liquid loans to the Permanent Fund in order to achieve liquidity for the on-going expense of government operations. The same conflict exists between General Fund and Permanent Fund management policies even within the limited list of investments currently allowed for the Permanent Fund. Even money market instruments, because they can grow relatively less liquid or less attractive with fluctuating interest rates, are subject to being traded off at a loss to the Permanent Fund.

It may be argued that there is an economy to be achieved by having all the funds managed under one roof. This proposition is yet to be persuasively demonstrated, but should this be viewed as a critical factor, it might be wiser to place all investments functions under a board such as Wisconsin's Investment Board for which investment functions have been clearly separated from revenue and taxation problems. Even though there is a split within the Department of Revenue by division between investments and revenue collection, I would submit that a headstrong Commissioner (and Alaska has seen a few of these) can easily overlook any separation of function so as to solve whatever political or financial problems may confront him.

Moreover, there's something to be said because of the special constitutional stature of the Permanent Fund for establishing a separate corporate identity for the Permanent Fund management. ^{(as} Under the House proposal of the last session of the Tenth Legislature and House Bill 281 now before you) The establishment of a separate corporate existence removed from the Department of Revenue should not mean any less accountability. Accountability is assured by continued oversight by the legislature through an appropriate committee or committees. The administration would continue to have oversight ~~power~~ through the appointment and removal power and budget review under the Executive Budget Act. It is interesting to note that the administration has no problem with management of 75 percent of the Permanent Fund by a separate corporation.

This brings us back to a very basic question. What are you going to ask this management structure to do? What guidelines are you going to give them for the investment of this public money? After considerable deliberation, the predecessor to this committee, the House Special Permanent Fund Committee in the Tenth Legislature determined that the guidelines should approximate those of a savings trust and that regardless of whatever long-term investment commitments

the fund may be called on to make in the future, that a large portion of permanent fund money should be in very liquid form of investment--that is to say that a large portion of the fund would be flexible and available for a totally new kind of investment in which savings may or may not be the primary emphasis.

By flexibility or liquidity, we meant the ability to change the form or thrust of the investment without discounting or taking a substantial loss on the investment you are "cashing in." Implicit in this statement is the possibility that the legislature may reasonably or unreasonably decide at some time in the future that the fund should be committed directly or indirectly (by equity investment or by guaranteeing or pledging) to some major project or series of projects within the Alaskan economy or to address an "economic emergency" by certain investments the legislature may designate by statute.

The necessity and wisdom, however, of stating in law a clear statutory charter for the savings trust is that when that time comes to change the major thrust of the Permanent Fund, it can only be done by amending the law by a bill requiring hearings and majority approval of each House as well as the approval of the Governor. There is, in my view, a far less likelihood of ill-advised or secret deals being cut for the disposal of permanent fund money under

the requirement of a passage of a bill rather than simply the decision of a compliant bureaucrat.

The statutory charter you are called upon to address would also provide for a flexibility which may or may not be the case under the "temporary" statutory provisions. Without further inquiry it is difficult to ascertain the true position of Permanent Fund from the Department of Revenue's monthly investment reports.

One extreme would have been to completely remove the policy decisions of the Permanent Fund managers from reach of any elected officials. This would have had the unfortunate result, however, of completely insulating the managers of the Permanent Fund from the general public or the need to respond to changes of public policy. This was the essence of the major criticism against the establishing a Permanent Fund in the first place. Nevertheless, I believe the provisions of House Bill 281 will prevent the Permanent Fund from becoming a headless monster. House Bill 281 appropriately balances the need for insulation from day-to-day politics with the need for responsiveness to changes in basic public policy.

There is, among all the legislative proposals now before you, a consensus that the trust concept should be the dominant theme of any final bill. In order to make this

theme more plain to the principal fund managers, there needs to be both a general statement as to investment standards (such as the prudent man rule) and list of eligible investments specified as appropriate in regard to risk level and return to the fund. The greatest danger of substantial erosion of the Permanent Fund principal is not (as suggested in a February 23, 1979 Permanent Fund policy memorandum of the Division of Policy Development and Planning) from a practice of making investments at less than market rates but rather from making investments entailing more than a reasonable risk. Generally, in the investment world the higher the risk, the higher the expected return. In a number of instances, however, we have seen the investment of public assets in investments which are highly risky and yet offer in the outset a very low return. Sometimes, these investments are justified on policy grounds as being necessary to diversify the economy or create jobs. Often, neither goal is achieved.

Both before and after the passage of the constitutional amendment establishing the Permanent Fund, elected officials, consultants, members of the general public all offered differing views to what the Permanent Fund could and should accomplish. I recall writing an article in which I enumerated various worthy things the Permanent Fund could do. Principal

among these was the opportunity to use Permanent Fund money to diversify the economy and to replace absentee ownership of certain industries, particularly renewable resource industries, with Alaskan ownership. Now that I'm older and wiser, or at least older, I see the Permanent Fund cannot reasonably be expected to accomplish all our goals at once.

One reason for a modification in my view is that the fund didn't turn out to be as big a pot of gold as anticipated. Another factor was the realization that many of the "development banking" investments would be at risk levels generally incompatible with the concept of a savings trust. A solution we proposed was to commit the basic 25 percent mandated by the Constitution to a savings trust and to provide for an additional contribution over and above the 25 percent to an "Alaska Enterprise Investment Corporation." The purpose of this corporation, as in your House Bill 282, is to assist financially sound, small and medium scale productive private enterprises and community development projects in the State.

I urge you to act on bills which provide for clear and accountable management of the Permanent Fund and the Alaska Enterprise Investment Corporation. Whether or not capitalization for the enterprise function actually comes from an additional dedication from the Permanent Fund

or from the General Fund, I believe there needs to be an active entity in the area of development banking, designed to assist the economies of the varied communities and regions of the State in an original way which does more than merely replace sources of capital that otherwise would have been available. After the separate managements of the Permanent Fund and the enterprise function have had the opportunity to establish a track record, some joint participation by the two entities in "development banking" may be justified.

In the meantime, Permanent Fund management ought to be required by law to place a premium on safety and liquidity of investment so that when we see more clearly where the greatest potential of the fund for new investment opportunities lies, we can act.

Even though it now appears we cannot accomplish all our goals at once, over a period of time it is, in my view, possible to do most of those things originally envisioned for the Permanent Fund. Within the realm of a savings trust a number of current benefits still accrue to Alaskans:

1. Mineral wealth, otherwise destined for expenditure in the operating budget of state government is held available for future capital investment and improvement in the State;

2. Active capital investment in the State can be properly made under the savings trust concept;

3. The credit worthiness of the State for both general obligation bonds and revenue bonds is enhanced, thereby increasing the ability of the State to acquire new capital sources at lower cost;

4. The opportunity to participate in the diversification of the Alaska economy at a future time remains open; and

5. The Permanent Fund will continue to serve as a meaningful focus for the public to discuss State fiscal and economic policy.

There is a common awareness now that the income from the earnings of the Permanent Fund will never be sufficient to replace, in any significant amount, the revenue now required for state government. I'm still partial to the use of income proposal contained in House Bill 595 of the Tenth Legislature. That use of income proposal was designed to assist the development of low cost energy projects throughout the State.

If, however, this committee does not reach this conclusion as to the use of the income from the Permanent Fund, returning the income to the principal of the fund so that the impact of inflation on the corpus of the fund will be lessened is preferable to its present deposit in the General Fund.

To sum up, three points bear repetition. Whatever bill you finally agree on, provision ought to be made in the investment guidelines for liquidity of investment of the larger portion of the fund. Second, the statutes must provide for public accountability for the performance and policy of the fund's management. This, I believe, entails placing the management out from under the potential conflict situation within the Department of Revenue. Accountability also should include at a minimum, a meaningful reporting procedure and an active oversight function by the legislature. My last point is that the legislature has sufficient information to make a decision this session and I don't think there is any good reason for delaying a permanent fund bill.

MEMORANDUM
State of Alaska

TO: The Honorable Hugh Malone
Chairman, House Permanent Fund
Committee
Alaska State Legislature

DATE: April 7, 1979

FROM: Frances Ulmer
Director
Division of Policy Development
and Planning

RE: Suggested Amendments
to HB 281

I would like to share with you a few amendments to HB 281 which you might consider in your mark-up session.

- p. 6,
line 11 The contribution rate in HB 281 is set at 30%, which we feel is better than 25%, but we request that you seriously consider a 75% contribution rate and a 100% contribution rate for bonuses.
- p. 6,
line 29 Delete the word "primary" as it implies unstated secondary goals.
- p. 10,
line 17 Board membership set at three. The Administration feels a larger board would provide additional perspective and expertise.
- p. 7,
line 18 Legislative confirmation of the Board is probably unconstitutional.
- p. 7,
line 28 Legislative consent for Board member removal is probably unconstitutional.
- p. 10,
line 14 We would like to make special note of our support for this provision which is designed to prohibit placing the principal at risk through leveraging or guaranteeing with the principal.
- p. 11,
line 13 We recommend the use of the language in HB 277, Sec. 190(1) which we believe is clearer.
- p. 12,
line 13 We recommend that the funding for the operating budget come from permanent fund earnings rather than the general fund for the extra incentive for efficient operation such funding source would create. Such funding would remain subject to appropriation and the Executive Budget Act.

MEMORANDUM
State of Alaska

TO: The Honorable Hugh Malone
Chairman, House Permanent Fund
Committee
Alaska State Legislature

DATE: April 7, 1979

FROM: Peter Bushre
Deputy Commissioner, Treasury
Department of Revenue

RE: HB 281

The Department of Revenue suggests that HB 281 be amended as follows:

Page 4, line 15: With regard to the powers of the Investment Oversight Committee, audits should not be restricted to the Legislative Budget & Audit Committee. Subsection 7 should be amended to review of reports and past audit analyses conducted by outside, independent auditors as well as Legislative Budget & Audit.

Page 4, line 20: With regard to Audit reports and analyses, the Investment Oversight Committee should have the option of contracting these items independent of the Budget & Audit Committee.

Page 10, line 18: With regard to the power and duties of the Permanent Fund Corporation, the Board is specifically prohibited by existing language from contract management of Permanent Fund investments with the Department of Revenue. Delete language beginning with the word "it" and all of lines 18 and 19.

Page 10, lines 20 through 27: Qualifying investments are not sufficiently defined to conform with the intent of the House Permanent Fund Committee as expressed in previous meetings. Existing language would permit soft loans and other investments of a questionable nature, particularly under the short term category. We suggest that the Committee substitute the investments as defined in Administration Permanent Fund Bill which is HB 277 (for the 25% trust, i.e., 37.10.065(b)).

Page 11, lines 16 through 29; and page 12, lines 1 through 9: With regard to treatment of gains and losses, the impact of HB 281 as currently drafted will be to spread such items over a defined future period. Net income is apparently added to the income (line 21). We suggest this be amended to inclusion within Section 150 requiring disposition of Permanent Fund income. The disposition of income appears to be somewhat unnecessarily complicated and we maintain that the language in the Administration Bill is superior and should be substituted.

SELECTED EXCERPTS FROM TESTIMONY BY MR. ROBERT BLIXT, THE EXECUTIVE SECRETARY OF THE MINNESOTA STATE BOARD OF INVESTMENT

presented to the House Special Permanent Fund Committee Nov. 19, 1977

BLIXT: You're hitting a question here that's just fascinating in Minnesota, and may I say-- watch out. I wonder if some of you see some of the problems involved in what you're discussing right now. In this problem of income versus total return, if you are actually going to sell stock that has a profit and use it as income, let us assume that fifty years from now the decision has been made to build a big dam in Alaska. You need money in a hurry. You need lots of money. You have a statute here which in essence says that if you sell stocks at a profit, it's income, under total returns. What do you have? Automatically, you go down your portfolio. Say that there's two billion in stocks at that time. What do you do? You sell everything at a profit. And you keep what we call your "puppy dogs." . . . We've gone through this actually in our state right now. And even though we use the total return concept of investment, we are extremely careful not to put the proceeds from the sale of equities on the total return system into the income stream because, if we do, we're continually lowering the quality of the portfolio. Now we use this total return concept, but there are many words for it. . . We use the total return concept-- total return, pver all, over a period of years-- and then we can sell the stock at a profit, then turn around and put those profits back in the portfolio and maybe buy a bond or some other stocks with it. Once you find you're selling stocks at a profit, under a total return situation, to get money for now, the corpus of that permanent fund is going to streak out. I can see it happening in other states.

GRUENING: Right now the constitutional provision says that 100% of the income goes to the general fund, which means that if a stock were sold, 100% would go back to the general fund unless we decide to do otherwise, and what I was just suggesting is that we put 50% of whatever's realized back into the permanent fund. I'm just tossing that out.

BERRIER: The point that Mr. Blixt is raising-- and the committee can do this if it chooses-- is to define capital gains as principal rather than as income.

. . . .

BLIXT: We take the capital gains and put them right back in the corpus of the fund. And let's be blunt-- investment men always make a lot of mistakes. Every time I sell a stock at a profit I find there's a couple of puppy dogs in there that I wish I'd never had in the first place and I want to sell at a loss. And you know, it makes it just marvelous to take a \$100,000 profit and then a \$90,000 loss to revamp the portfolio, and I'm still \$10,000 ahead. But if I had to put all the profits into the current fund, what would I do with the losses? You're not going to find an investment man that's so good that he only buys things that go up.

. . . .

Our constitution was changed in 1962. Our legal beagles didn't like the standard prudent man rule that you have in banks. . . . Let me read you this language that's in there now-- it's been upheld by the court and it's pretty good-- "All funds arising from the sale or other disposition of the lands (that's our permanent trust fund lands), or income accruing in any way before the sale

or disposition thereof, shall be credited to the permanent school fund within limitations proscribed by law"-- I like this phrase-- "to secure the maximum return thereon consistent with the maintenance of the perpetuity of the fund." See what that says? We all like it. We think it means that the capital gains go right back into the fund. We must maintain the perpetuity of the fund. From now we must presume that we're going to want as much from this fund as we would have had if the iron ore was still in the ground and we could sell it now.

. . .

GRUENING: When Bill mentioned crediting the capital losses to the income, do you have an equivalent of that?

BLIXT: I think any investment man can always arrange to sell enough at a profit each year so that he'll come out a little ahead, and that's what we do. Yes, we have losses. Every year our permanent school fund has come out ahead. A fund the size you folks are talking about-- you'll be able to do the same thing. I wouldn't take it out of income as such. The constitution and the statutes in Minnesota do say, if I sell a whole group of stocks at a loss that loss must be made up out of income over a period of five years. I think that language is reasonable. Otherwise I could sell it off all one year and really dive into the income which we need for schools.

. . .

You have to have something that spreads your losses or gains over a period of time. We have one sentence in the constitution and the rest by statute. The sentence in the constitution is, "The principal of the permanent school fund shall be perpetual and inviolate for-

ever. This does not prevent the sale of any public or private stocks or bonds at less than cost to the fund. However, all losses not offset by gains shall be repaid to the fund by the interest and dividends earned thereafter." That's all the constitution says. Then we have other provisions in the statutes. "At the end of each fiscal year, the total amount of losses on the sale of securities not offset by gains on the sale of securities during that year shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and such an amount of interest and dividend income shall be added to the principal of the fund." In other words, losses taken on the sale of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold and losses taken on the sale of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. "In any fiscal year in which the gains on the sales of securities exceed the losses, such excess shall be added to the principal of the fund." What we're saying here is we can sell all kinds of bonds to take advantage of the market-- sell a bunch of bonds at 80 but if they're twenty-year bonds let's not take that out of income in one year. We will simply take enough out of the income each year so that we raise the amount from 800 to 810 the first year, then 820 the next. It's worked beautifully.

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FACING UP TO THE FUTURE

JAY S. HAMMOND
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

Fellow Alaskans:

Ever since the September, 1969, oil lease sale, the State has poured hundreds of millions of dollars worth of non-recurring "nest egg" wealth from oil revenue into the funding of a rapidly expanding State bureaucracy. All the while, the lion's share of Alaskan taxpayers have been lulled into indifference because their own taxes have not been raised to foot the bill for the expansion. I think it's high time they were told. That is why I wrote this series of newspaper articles. I hope you will take the time to read them--not for my sake, but for your own and for the sake of your children. If I leave nothing else in my wake, I want to buy for our kids a piece of a better tomorrow. It's my hope that Alaska, Inc. will accomplish that dream.

Sincerely,

A large, stylized handwritten signature of Jay S. Hammond, written in dark ink.

Jay S. Hammond
Governor



"... There are only two reasons why a politician will fly in the face of politics. Either he's stupid or he thinks he's right. I would hope you take time to plow through this series of articles so that you may draw your own conclusions. Don't do it for my sake. Do it for your own and for the sake of your children."

"... We've been trying to fund a Rolls-Royce government on a V.W. income and have had to dig deeply into our 'nest-egg' inheritance wealth in order to do it."

FACING UP TO THE FUTURE

Part One of a Five-Part Series

by

Governor Jay S. Hammond

Introduction to "The Big Problem"

More important than gas pipeline routing, the North Slope Haul Road or even the wolf controversy is an economic issue which, until recently, has been almost ignored--much less understood. Yet it will do more to determine the future of Alaska than all other circumstances put together. It explains why the state is on far shakier financial ground now than it was in 1960; what happened to the \$900 million nest egg; what will inevitably happen to all but the shell of the next nest egg--and the next and the next--unless drastic changes are made now; why almost no industry in Alaska now "pays its way"; why, unless we reduce per capita government costs or increase per capita taxes, we simply cannot afford new industry if it encourages population growth; why government growth has ballooned so dramatically; why most Alaskans here now are being subsidized by future Alaskans; why we've encouraged outsiders to "rip us off and then run"; why taxpayers no longer foot the bill; why we cannot at this time reduce taxes without making things worse; why we might reduce the pain of appropriate tax increases through the so-called "Alaska, Inc." proposal; and why, unless Alaskan citizens clearly understand it, we politicians are not likely to do a great deal about any of the above.

What I am talking about, of course, is the manner in which we have paid for expanded government. Instead of a prudent "pay as we go policy" which limited government growth to that which we could afford to pay for from on-going income, we have been feeding growing government with non-renewable resource "nest egg" wealth--i.e., the \$900 million--which, unlike taxes, we will receive but once.

We have been something like a man who, with an annual income of \$10,000 traded up for a Rolls Royce by turning in his VW plus some \$20,000 from a "nest egg" inherited from his Great Aunt Minnie. When he finds he cannot pay the installments, much less for the gasoline and upkeep from the salary he makes, he can either (1) get rid of the Rolls, (2) find a more lucrative job, or (3) start hocking his home to pay for the car. Should he opt for number three, most would think he was stupid--except the people who sold him the Rolls or those who got to ride in it and liked it far more than the old VW.

Thus, it is with the state of Alaska. We've been trying to fund a Rolls Royce government on a VW income and have had to dip deeply into our "nest egg" inheritance wealth in order to do it. Moreover, it's highly unlikely the public, and in turn politicians, will permit us to trade back down to the VW. Most, of course, say they want to trim back. But, for goodness sakes, not at the expense of my special program. My program is not adequate now! Get rid of some bodies; spend more.

efficiently; reduce salaries; or wipe out some other guy's project; but don't reduce my crucial service.

Government growth, of course, is not only salaries and personnel. Government growth is a new ferry, increased revenue sharing, aid for school construction, airfields, boat harbors, pioneer homes, old age assistance, and even maintenance of the North Slope Haul Road. Every motherhood measure obligates additional government growth. Like growth in the private sector, not all government growth is bad. It's whether the growth is subsidized that's important. Of course, all programs cannot "pay their own way". Most need subsidized help from other fund sources. But that subsidy should come from income rather than nest egg wealth.

Since some demands for new services are legitimate and compelling, government is going to continue to grow, and no one is going to dramatically reduce government costs while increasing government services. Minor tinkering can take place; but don't lose sight of the political issue because of smokescreening. The key issue is how to assure government does not continue to grow in a manner future Alaskans cannot afford.

Through this series of articles I'll provide information which caused me to conclude that this is by far the most crucial issue facing future

Alaskans. Unfortunately, however, like the hidden string in a necklace, it is virtually undetectable; though just as functionally imperative. It links past, present and future circumstances inexplicably together. Yet it is fast unraveling. Unless we thread together those circumstances with a new, stouter and enduring economic string, inevitably the unsound present string will break, showering all sorts of glittering dreams for Alaska's future through the floorboards. We can forget doing things appreciably better than they have been done elsewhere for we may never again have the opportunity or funds to string those dreams back together.

Smart politics suggests we sit back and hope the problem goes away rather than grapple with it. I cannot do that. There are only two reasons why a politician will fly in the face of politics. Either he's stupid or he thinks he's right. I would hope you'd take time to plow through this series of articles so that you may draw your own conclusions. Don't do it for my sake. Do it for your own and for the sake of your children. The course of events will be altered only if you insist that it is. It is my hope that this series of articles will help motivate concerned Alaskans to begin making those requisite rude noises.

In the next article, I'll present some information which hopefully will help fan those flames.

" . . . Were we actually a business corporation, shareholders would throw us out on our ears."

FACING UP TO THE FUTURE

Part Two of a Five-Part Series

by

Governor Jay S. Hammond

The State's Balance Sheet

Many seem to think Alaska has money to burn. That's not surprising since we've really been burning it. However, the way we've used money to stoke up state government has been much like feeding one's home fires the home: certainly, one can stay warm and cozy while walls and roofing remain; however, long before you've burned the last board, the wind whistles in.

At long last many are starting to feel the draft. Though I may make a pest of myself in the process, I'm going to hold the door open until I have the attention of all. It's time we either turned down the heat under expanding government or hauled in more appropriate tax fuel.

Alaska started throwing its "floor boards" into the blaze when we sold an oil lease and, instead of putting that wealth into income-producing investments or capital construction, used it for increased on-going government salaries and services. With the \$900 million Prudhoe lease wealth, we started burning our "home's" siding and studs.

Certainly, until we run out of lands to lease or oil to pump, we could keep the bureaucratic boilers sufficiently fueled to divert attention from snow seeping in. But unless we start using more appropriate fuel, inevitably some day the roof will cave in.

It's been mighty pleasant to bask in the warmth from burning those "floor boards" rather than having to haul more tax fuel in from outside. But this is depleting capital wealth from our savings account rather than using on-going income. As such, it is inappropriate fuel. Appropriate fuel comes from on-going taxes or income from investment of capital wealth. Hopefully prudent investment income from the permanent fund will permit a reduction in taxes. But we are by no means able to do so at present without simply shoveling more of our depleting basic wealth into on-going government instead of the permanent fund. I find few who want to do this, but once permitted to use readily available inappropriate fuel, it's hard for politicians either to turn down the heat by reducing state services or switch to the more appropriate fuel from new taxes. It can only be done if Alaskans understand what has happened and demand that we do something about it.

We politicians have had the best of all possible worlds: The capability of expanding services without having to raise taxes. That's where the \$900 million went. That's where most of our future non-renewable resource dollars will go unless we shift now to another approach. Small wonder

that many think we Alaskans are flush. Yet actually Alaska is on far shakier financial ground now than in 1960. To recognize this clearly one need but imagine the state a business corporation and all residents "shareholders".

If one considers taxes paid to the state as income received for services rendered, in 1960 "Alaska, Inc." operated in the black. We took in more money than we spent. Moreover, on-going costs of state government were 98% funded from on-going taxes. The remaining 2% costs were paid by statehood transitional monies. In fiscal year 1969, before we began "burning" the \$900 million, we still were using mostly appropriate fuel. 64% of recurring government costs were obtained from recurring revenues. 36% was fueled from non-recurring oil lease "nest egg" wealth.

By FY 1976, however, we were funding only 39% of government's recurring costs from appropriate sources. We are now required to shovel more than 400 million "nest egg" dollars from Prudhoe leases and future severance taxes into the remaining 61% of operational costs.

In 1960 the state spent about \$600 per capita while it took in about \$800 in taxes. "Dividends" of about \$200 per resident shareholder were "earned". Not bad "corporate" performance; especially since our assets then were vastly greater than our liabilities and almost all of our non-renewable resource wealth was still banked in the ground accruing

interest. By contrast, in 1977, our non-renewable resource assets have begun to deplete while renewable assets such as fisheries are deep in the doldrums. Liabilities, on the other hand, have vastly increased. Bonded indebtedness has skyrocketed, and by FY 1976 we had long since stopped paying as we went for expanding government. In 1976 we had income of only about \$1,450 per person while we spent almost \$1,750. Thus, "dividends" earned per resident stockholder had fallen from \$200 each to minus \$1,065—61% of the \$1,750 it now costs the state to provide services for each Alaskan. That's a deplorable performance for a presumably lucrative enterprise. Were we actually a business corporation, shareholders would throw us out on our ears. Instead, viewers see the plate glass, the deep piled carpets, the shiny new buildings and throngs of employees as evidence of a profitable venture which, somehow curiously still does not provide them with "adequate" service.

From a business standpoint, Alaska's government is in far worse shape than in 1960. Now we're deep in the red and kept from swamping only because we've used hundreds of millions of our non-recurring resource "nest egg" wealth to bail us out.

But who's complaining? At least we've raised nobody's taxes. While such may be good politics, is it good business? You might con unsuspecting voters into acceptance; but not shareholders whose "dividends" would reflect such incredibly poor performance.

For example, I suspect that had each citizen gotten a piece of Prudhoe through dispersal of dividends earned by sound investment of the public's \$900 million, we would either know precisely what happened to that nest egg wealth, or it would still be intact yielding dividend checks to the shareholders. Under those circumstances, we would more likely have been willing to pay as we went for state services since the dividends would have helped offset the bite of more appropriate taxes or at least would have inclined shareholders to demand we politicians turn down the heat under state spending.

Perhaps it's time we created "Alaska, Inc." and gave Alaskans some direct shares of the resource wealth which all own. Perhaps only by so doing can we hope that they in the future will insist upon better accountability and performance by those of us tending the fires. It may be the only way to get us back on to more appropriate fuel before we've burned up the floor, the ceiling, the walls and the roof does cave in on our kids.

" . . . This may well be the last chance we will have to shift to a more appropriate means of funding state government."

FACING UP TO THE FUTURE

Part Three of a Five-Part Series

by

Governor Jay S. Hammond

Something's Got To Give

Make no mistake, I'm opposed to new taxes. Isn't everyone? However I'm even more opposed to spending one dollar more of our depleting, non-renewable resource "nest egg" wealth for expanding government salaries or services. Most people seem to agree. At least when I ask if there's anyone in the audience who thinks we should put one more dollar of "nest egg" wealth into on-going government, the answer is always a resounding "no"!

By voting overwhelmingly to place at least 25 percent of our "nest egg" wealth into a permanent fund, Alaskans have demonstrated their awareness that we should not pay for the expansion of government with such monies since they will come to us but once. Instead, government should be allowed to grow only to the extent we're willing and capable of paying for from either income from investments of "nest egg" wealth or appropriate taxes.

Until recently, many Alaskans did not think of our "nest egg" oil wealth as the same as an "inheritance" because Prudhoe Bay should turn over

more of that "inheritance" to us in each of the next several years at least. Yet, despite the fact that our receipt of "inheritance" is stretched out over a longer period of time, it is just as inappropriate to feed it into the growth of government over the long run as it would have been to do so had it been conveyed to us in one lump sum.

Since we started selling oil leases, we've lived in a politician's paradise. We've been able to pump up governmental salaries and services without going to the public for one more tax dollar. By voting to create a permanent fund savings account, the public has, however, indicated a growing awareness that there's something wrong with what we've been doing. I believe, and I ardently hope, that the public will press to place ultimately all of our "inheritance" wealth into this savings account. Some argue that even severance taxes should be considered "nest egg" inheritance wealth since they come from a depleting non-renewable resource and, thus, someday inevitably will be gone. Despite the growing public awareness that our expanding government has grown from feeding off of our inheritance rather than income, few understand just how hooked on this practice we have become and how difficult it will be to wean government off of "inheritance" wealth and back onto a pay-as-you-go basis. For example, while almost everyone tells me that they do not wish to put one more "nest egg" inheritance dollar into on-going government, they are aghast to learn that just to keep government services at their current level next year will require that we put a minimum of about \$477 million

such inheritance dollars into the budget. That is, if the legislature holds the line to the budget level I submitted. Contrary to public misconception, I did not ask for any new taxes should that budget level not be exceeded. I merely said that, should the legislature increase that budget, I propose various measures to increase state income in order to meet those costs. I am not opposed to expanding state services if we have income to pay for them. However, I do not believe the public wants us to dip even deeper into our depleting "nest egg" inheritance to provide that income.

I recognize that in my budget message I handed legislators, butt first, a loaded gun cocked and held to my forehead. If most legislators are more concerned with political games than the broad public interest, you can expect several "motherhood" measures to pass this session while taxes remain set at the current 1961 levels.

Most legislators know I mean it when I say I cannot in good conscience permit any increase in our already dangerous dependency upon "nest egg" inheritance wealth to meet government costs appropriately paid through current income. This may well be the last chance we will have to shift to a more appropriate means of funding state government, or at least hold down that government growth until appropriate means are available to permit its further expansion.

Perhaps the legislature will choose to discharge that gun in order to wipe me out politically by passing those "motherhood" measures and compelling me to alienate almost everyone. However, I am banking on principle outweighing politics for I believe most legislators are just as concerned as you tell me you are. If they are not, here is what will undoubtedly happen. Bills increasing benefits to old timers, teachers, taxpayers, municipalities, school districts, the poor, and the bush will all pass while no taxes will be increased on the public.

Even if we could put all of our "nest egg" inheritance wealth into sound investments, the income from those investments would not for many years permit us to shift totally to paying as we went for government. However, unless we start to suppress government growth and to increase the percentage by which we pay as we go for government, we will simply feed one \$900 million "nest egg" after another into government's gullet.

I find few who do not agree that is inevitable. Most agree something should be done to preclude it. What? Some say slash government services to a level at which we can "pay as we go" such as we did back in 1960 when only state income and not one dollar of state non-renewable "nest egg" wealth was used to run government. But that would require we slash \$477,000,000 this year alone in government services. The alternative, of course, to not "going" so far is to start "paying" more. One or the other or both are necessary if we ever are to shift back to sound

financial practice.

In my two years as governor, it has become increasingly apparent that unless we are able to make that shift, we have commenced a countdown to chaos which will make New York's financial plight seem trivial by contrast. One means of possibly helping us make that shift is a proposal I've put forth which would make each Alaskan a shareholder in our resource stocks. It's my hope that, by giving John Q. Alaskan a "piece of the action", we'll also be giving him an increased awareness of the improper uses those resource dollars are often put to. I call this grass roots revenue sharing proposal "ALASKA, INC.". I'll begin outlining it in the next article in this series.

" . . . If Alaska, Inc. would do what many believe it might . . . isn't it worth gambling one-sixteenth of the income from our non-renewable resource wealth?"

FACING UP TO THE FUTURE

Part Four of a Five-Part Series

by

Governor Jay S. Hammond

"Alaska, Inc." - One Possible Solution

The "Alaska, Inc." proposal is not something which the public can or should accept without examination. It will only come about if the public concludes it provides the best, perhaps the only, means by which we can possibly shift now to an appropriate "pay as you go system" before it is too late. It will come about not because we politicians have told the public it should, but because the public concludes, as have I, that it may be the only way to assure that at least a portion of our non-renewable resource wealth is returned in some discernible benefit form to Alaskans both here now and in the future.

However, the only way it's likely to happen is if the people demand it. Otherwise, expect business as usual. Save for that small percentage of non-recurring resource wealth which must by constitutional mandate go into the permanent fund, inevitably ever greater amounts of our non-recurring wealth will be used to fund state government spending before most politicians would dream of offending the electorate by suggesting new taxes.

Therein lies the most compelling arguments in behalf of dispersing dividends to citizen shareholders in "Alaska, Inc.". We are blessed as no other state has been; we can afford to try something different. In fact, it may be we cannot afford not to.

The basic question as to how we use our income from investment of our resource inheritance wealth is this: Do you believe as I that all Alaskans should share equally in at least a portion of that income? If you do, "Alaska, Inc." may be the only means by which this can be done.

The "Alaska, Inc." bill we are introducing will be a blueprint for discussion. It should not be acted on this year. I submit it to provide merely something to build upon or be torn asunder. It incorporates features and procedures designed to ease administrative costs; reduce fraud; provides no inducement for persons to come to Alaska; permits options which reduce the federal tax bite; permits us to shift to appropriate tax schedules without undue cost to most Alaskans now here.

It obligates but a minor portion of the income earned from permanent fund investments. The great bulk of such income can still be used for expanding government. Hopefully, however, once the public is conditioned to the "Alaska, Inc." concept, there would be ever greater restraints placed upon those who would spend monies from depleting non-renewable resources. I would hope that ultimately 100 percent of such revenues were placed into the permanent fund. However, we cannot do that in one jump.

It will take a long time to wean ourselves away from siphoning "nest egg" inheritance oil dollars into state salaries and services. However, even the modest amounts of money committed under present law to the permanent fund should at least start to turn down the tap.

The blueprint bill which we will introduce provides that a person who has been physically present in Alaska during the majority of each of five years would be eligible to receive a dividend check for a share of earnings derived from investments of permanent fund oil money. Shareholders would make application by signing an affidavit attached to state income tax forms. That affidavit would attest, under penalty of losing all future benefits for perjury, that one had met the qualifications which, along with physical presence, required that one be registered to vote. There will be an option to defer receiver dividends for those who find that under such deferral they could reduce the federal tax bite. Persons 65 years of age who qualified would initially receive two shares. Subject to the effective date of the legislation, for each subsequent five years during which an individual met the qualifications, an additional share would be conveyed. Children, upon achieving the age of 18 and otherwise meeting eligibility requirements, would receive one share for each accumulative five year period subsequent to the date of the act.

Possibly we should provide that those imposing costs on the state should have the dividends used to defray those costs. For example, we might

charge room and board of those housed in our correctional facilities.

There are some of course who's earned income is such that state dividends could be largely offset by federal income taxes. An option to defer receipt of dividends until retirement age or some such time could go a long way to offset the federal tax bite. A tax audit option also should be considered.

Since oil royalties and lease bonuses make up but a portion of revenues derived from oil, there will still be a significant amount of oil revenues from severance taxes available for spending through general fund appropriations, just as now. Under a constitutional amendment establishing the permanent fund, only 25 percent of just lease bonuses and royalties would have to go into the permanent fund. If leases bonuses and royalties made up 50 percent of the annual income to the state from oil, that means that only one-eighth of our annual income from oil would be placed into the permanent fund. In turn, under our "Alaska, Inc." proposal, but one-half the earnings from permanent fund investments, or one-sixteenth of the potential earnings from our oil wealth, would be dispersed in dividends to qualified Alaskans. If "Alaska, Inc." would do what many believe it might insofar as suppressing government growth to the level people would permit themselves to be taxed; creating public pressures to place additional depleting non-renewable resource wealth into the permanent fund; assuring that all Alaskans received some discernible benefit from their share of our resource wealth and that those flocking to Alaska in the

future really paid their way rather than requiring the state to subsidize their presence; if it even possibly could do these, isn't it worth gambling one-sixteenth of the income from our non-renewable resource wealth? or, should we permit it to go the way of the \$900 million instead?

While the initial dividends to be paid Alaskan shareholders might be modest, by increasing the amount of oil wealth within the permanent fund or the percentage allocated to dividends. Those dividends could be significant. They could more than offset the additional costs to most Alaskans now here of appropriate taxes to which we must begin to shift if we ever hope to start "paying as we go" for government—or not going!

"... The more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to 'pay our way'."

FACING UP TO THE FUTURE

Part Five of a Five-Part Series

by

Governor Jay S. Hammond

In Defense of "Alaska, Inc."

Of course, there have been objections raised to the "Alaska, Inc." concept. I was reluctant to float it out because I knew it would be vulnerable politically. Yet, the more I have considered the objections raised and explored possible alternatives, the more I have become convinced it may be the only means by which we can possibly once more begin to "pay our way".

Among the main objections I have heard raised is the suggestion that to pay dividends directly to Alaskan shareholders would pander to the public's "greed". But even if such would be the case, would it not be refreshing to have the public's so-called "greed" working to suppress the growth of government and state budgets to counter special interest "greed"? Of course, one man's presumed "need" becomes the other fellow's "greed". Regardless of the terminology, it would be interesting to have the modifying influence of the public's "greed" or "need" countering that of special interests or the pork barrel process. Another objection has been that such a program would create pressure from the public to exploit our resources at a less than prudent pace. But those pressures could not be worse than the pressures we are faced with now. It would be much easier to

resist public pressures to lease out all our oil lands as quickly as possible simply to achieve a larger dividend than it is under the present circumstances to resist putting up new oil leases each time the growth of government demands an increase in revenues. Such was the case when I took over this administration. Faced with a \$200 million shortfall, I had little choice but to cast around for some immediate revenues. Obviously, I could not double the income tax. The only thing I could assuredly do was to find another oil province to lease and hope we could raise enough money. Thus, I was almost compelled to put up the Beaufort Sea leases simply to meet the state's payroll, despite the fact the time was not the most auspicious nor the price potentially top dollar. That's a lousy way to be forced to do business. However, unless we shift to funding government from appropriate tax dollars it's only a matter of time before this governor or the next will be forced to start selling lands to pay off the help.

Some have suggested that if you believe that all Alaskans should share equally in our non-renewable resource wealth, perhaps we should simply sell it all and disperse shares directly to Alaskans rather than placing that wealth into a permanent fund. I disagree most emphatically. That wealth does not belong to simply those of this generation. It belongs to Alaskans now and in the future.

Some have said the program would be difficult to administer and would lead to fraud and litigation. By using an affidavit attached to one's income

tax return, we not only will increase the number of income tax filings but simplify the process of application. Moreover, it is unlikely that many will be inclined to cheat if they are made aware that if by so doing they would foreclose the opportunity to ever again participate in the program. Since initially all who qualified would receive but one modest share, it is unlikely there'd be much inducement for an individual to jeopardize his potential long-term earnings by perjuring himself. An additional safeguard could be structured into the act by simply requiring that applicants must submit, upon demand, evidence supporting their contended qualifications. Such evidence might consist of affidavits from two prospective shareholders who, if found to have perjured themselves, would also lose forevermore prospective benefits. Procedures such as these would certainly cut down on the potential for abuse.

While dispensing dividend checks to Alaskans may seem unusual, if one thinks about it, no matter how we use State monies, they are dispersed in "dividends" from a gigantic people's owned business corporation we could call "Alaska, Inc." If we use the money to cut taxes, a "dividend" is granted taxpayers. Use it to expand services; recipients of these services receive a "dividend". If we use it for municipal revenue sharing, "dividends" are conveyed to municipal dwellers.

While some investment earnings from "nest egg" wealth in the Permanent Fund could and will no doubt be used for the above purposes, all such "dividends" are selectively dispersed. What about the individual who

lives outside a municipality? Or who makes too little income to pay taxes? Or who receives no welfare benefits and few, if any, State services? Does not he also deserve a "dividend" from that wealth which belongs to all Alaskans? Perhaps the only way he can ever expect to see a share of that wealth is if he actually receives a dividend check. Perhaps we should take a page from the Native Land Claims Act. The Natives foresaw that the only way some of their corporate shareholders might see any part of their wealth was to distribute a portion in the form of a direct dividend check. However, they are distributing a portion of their capital nest egg wealth. I propose something far more modest: a distribution not of the "nest egg" wealth itself but a part of its earnings.

It seems to me that no matter how we use the income from our "nest egg" wealth, a major objective should be to see that at least a portion of it is distributed equitably. Should someone come forth with a more equitable means of assuring that all Alaskans can have a "piece of the action" than direct dividend checks, I welcome that information. To date nobody has.

Some say municipal revenue sharing's the way we should go. I don't think most Alaskans agree. However, there's an easy way to find out. Let people exercise local option. Should they elect to have all dividends go to the municipality rather than to themselves, so be it. However, I suspect most would like to have a chance to decide for themselves how

they would spend at least a small part of their wealth rather than leave all of such decisions up to elected officials.

Polls have shown that confidence in the way public monies are spent is inversely proportionate to the distance you remove those monies from the public's control. Thus, the public has least confidence that the federal government spends their money wisely. Somewhat more confidence in state government; and far more in local government since they at least have those who will spend it within their arms length. "However, if you really want my dollars spent wisely," says the average citizen, "let me say where they are spent." I think it's high time we listened.



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

May 28, 1977

Representative Clark Gruening
Chairman
House Special Committee on
the Alaska Permanent Fund
Alaska State Legislature
Juneau, Alaska 99811

Dear Representative Gruening:

I am pleased by your offer of cooperation and your suggestions for coordination of energy and effort on the Permanent Fund. This is an excellent opportunity for the executive and legislative branches to work together on what is unquestionably one of the most important issues facing Alaskans.

I have designated the Division of Policy Development and Planning as the coordinating agency for this project. The division will (1) maintain close contact with the legislative committees and their work; (2) pull together data from executive agencies which are only peripherally involved with issues which concern the Permanent Fund; (3) act as a clearinghouse for specific work requests for executive agencies from the legislative committees; (4) act as a source of information for regular progress reports on legislative action during the interim; (5) generally coordinate between the various departments which will be designated as lead agencies for specific projects; for example, the Department of Natural Resources, for renewable resources questions, and the Department of Revenue for investment implementation and structures; and (6) coordinate with the Growth Policy Council and the Public Forum on the public participation process which has been proposed.

I look forward to working with you and your committee on this project.

Sincerely,

A handwritten signature in dark ink, appearing to be "Jay S. Hammond", written over a horizontal line.

Jay S. Hammond
Governor

Alaska State Legislature

Representative
CLARK GRUENING
940 Tyonek Drive
Anchorage, Alaska
99501

907-274-2446



Chairman
SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
Chairman
WAYS and MEANS SUBCOMMITTEE
Member
FINANCE COMMITTEE
LEGISLATIVE COUNCIL

House of Representatives

POUCH V JUNEAU 99811

May 23, 1977

The Honorable Jay Hammond
Governor of Alaska
Pouch A
Juneau, Alaska 99811

Copy
PF - Correspondence

Dear Governor Hammond:

The need for an integrated approach by the executive and the legislature to implement the Permanent Fund is becoming obvious. Cooperation is desirable to avoid needless duplication and to ensure that the Permanent Fund does not fall victim to partisan politics or feuding between branches or agencies of state government.

While several of the executive agencies will be involved with individual Permanent Fund issues (structures, distribution of income, citizen participation, economic analyses, etc.), it would be extremely valuable to have one agency or individual within the Governor's office designated as the Permanent Fund policy and planning coordinator.

With certain departments such as Revenue, Natural Resources and the Division of Policy Development and Planning, the legislature would have direct liason. For the other agencies the coordinator could (1) maintain close contact with the legislative committees and their work; (2) pull together data from executive agencies which are only peripherally involved with issues which concern the Permanent Fund; (3) act as a clearinghouse for specific work requests for executive agencies from the legislative committees; and (4) act as your source of information for regular progress reports on legislative action during the interim. The legislative committees also plan to designate staff members as coordinators, to ensure the closest possible cooperation between the two branches.

The members of the House Permanent Fund committee (and probably Senate members as well) are interested in using the Alaska Public Forum to obtain public participation in the decisions the Legislature will be making as to the objectives and alternative structures for the Permanent Fund. In cooperation with members of the Growth Policy Council and all other involved members of the executive branch, the legislature would formulate the relevant policy questions on how the Permanent Fund, the Renewable Resources Fund and disposal of income from these funds fit into the larger question of management of public wealth.

The Honorable Jay Hammond
May 23, 1977

In the final implementation of the Permanent Fund, cooperation will ensure that no substantial divisions in intent and direction will occur. This coordination between branches should involve regular meetings between executive and legislative staff members in order that information be exchanged in time for the particular needs and deadlines of each group involved. This is particularly crucial in matters of citizen participation, so that the public is aware that their government is working on the Permanent Fund, rather than a public perception that each agency and committee is pursuing its own objectives separately.

The role of the Permanent Fund in the wise management of public wealth is the most important issue this legislature will face next session. Our work on this issue can be a model for future executive and legislative cooperation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Clark Gruening".

Representative Clark Gruening, Chairman
House Special Committee on the Alaska Permanent Fund

CG/br



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

July, 1977

MAILER MEMORANDUM NO. 77-4

FROM: Charles H. Meacham, Director
International Fisheries and External Affairs

On the personal invitation of Governor Hammond the U. S. State Department Ocean Affairs Advisory Committee, Fisheries Section, will hold its 1977 summer meeting in Kodiak, Alaska, on July 6 and 7.

In extending the invitation, Governor Hammond said, "We welcome the opportunity to show this prestigious committee, and the U. S. fishing industry Alaska's dynamic fisheries potential. This committee is a direct line to State Department officials responsible for negotiating fisheries treaties and is of vital importance to Alaska. An opportunity to observe first-hand the Western Alaska salmon industry in full operation will be a valuable experience for the members of the committee, while illustrating Alaska's special need for adequate fisheries protection."

The U. S. State Department delegation will be headed by Assistant Secretary Patsy Mink accompanied by Deputy Assistant Secretary for Oceans and Fisheries Affairs John Negroponte.

Enclosures:

U.S. Observers Start Work on Foreign Vessels, U. S. Maritime Monthly, May, 1977
Tanner Crab Sales Decline in Japan, ibid
Japan Paying High Prices for Alaska Red Salmon, ibid
Law of the Sea, Southeast Alaska Empire, June 27, 1977
Alaska Fishermen Double Crab Take, ibid
Japanese Fishing Boat Leaves Sitka After Citation, ibid, April 11, 1977
Whaling Commission Slashes the Quotas, ibid, June 24, 1977
Pollock Roe Prices Double, The Fisherman, May 6, 1977
Dogfish Operation for Poles Approved, ibid
China Warns Tokyo, Seoul on Sea Pact, The Japan Times Weekly, April 30, 1977
Taiyo Fishery Goes Up in Corp. Earners' List, ibid, June 4, 1977
Fishery Talks Suspended, ibid, April 23, 1977

New Fees Proposed for Foreign Vessels, Fishing Gazette, April, 1977
 Fish Processor to Expand Kodiak Operation, The Anchorage Times,
 May 19, 1977
 Sablefish Prices Peak on Japanese Markets, Western Fisheries, April, 1977
 Trade Agreement Includes Fisheries, ibid
 Argentina Wants Japan Immigrants, The Japan Times, May 9, 1977
 Japanese Group Wins Argentine Fishing Deal, ibid, May 18, 1977
 Central, Metropolitan Governments Take Action on Soaring Fish Prices,
 ibid, May 21, 1977
 Podgorny Receives Diet Mission, ibid, April 22, 1977
 Fishery Cities are Hardest Hit by Soviet-Proposed Quota Cuts, ibid,
 May 27, 1977
 Companies are Hotly Competing in Fish Habitat Development, ibid
 Japan Formally Accepts Quota Proposed by Russia on Salmon, ibid,
 April 22, 1977
 Gov't Approves Bill for 200-Mile Zone, ibid
 Quota Agreement Reached; Signing to Proceed Today, ibid, May 27, 1977
 Soviets Seize Japanese Boat, ibid
 Eager Fishermen Head for Grounds off Aleutians, ibid, May 13, 1977
 International Fishing in New Era, ibid, May 30, 1977
 Fishermen Told to Adjust Boats, ibid
 Silver Salmon Flourish in Warm Inland Sea, ibid
 Fishery Talks Over, ibid
 Japan Demands Larger Hauls From Soviet 200-Mile Zone, ibid, May 26, 1977
 Diet to Get Fishery Pact Legislation This Week, ibid
 Basic Territorial Issue Policy Reflected in Interim Pact, ibid,
 May 29, 1977

May, 1977

U.S. Observers Start Work On Foreign Vessels

The first of an estimated 160 United States observers have been placed on foreign fishing vessels that are permitted to fish within the 200-mile fishery conservation zone.

Under the terms of permits issued under the Fishery Conservation and Management Act of 1976, observers are placed on foreign fishing vessels to collect biological data, information on their catch, information on the types of gear used, and information on the fishing effort of the vessels. In addition, they will monitor compliance with the regulations and terms of the fishing permit.

Observer trips will cost between \$2,000 and \$10,000, including all direct and management overhead support costs of the Department of Commerce, Coast Guard, Navy, and Customs Service. These costs will be paid by the foreign nations which have observers on board their ships.

U.S. observers will board the ships either before they leave their home ports, from Coast Guard vessels at sea, or when the foreign ships enter U.S. ports to pick up the observers.

Tanner Crab Sales Decline In Japan

The sale in Japan of imported snow (tanner) crab from Alaska has recently dipped below the level for the same season last year in spite of the low prices (reportedly \$.16-\$.48 per pound) less than a year ago. The wholesale prices at Tokyo Central Wholesale Market in early March were reported to be \$1.93/lb. for size "4L", \$1.69/lb. for size "3L", \$1.45/lb. for size "2L". Informed sources attributed the declining sale of snow crab to excessive imports which so far have totaled 4,000 tons.

Southeast Alaska Empire, Juneau, Alaska, Monday, June 27, 1977

Law Of The Sea

UNITED NATIONS, N.Y. (AP) - U.N. delegates agree that the sixth session of the U.N. Conference on the Law of the Sea is nearing a climax.

They predict that over the Fourth of July weekend an effort will be made to produce the third highly tentative text in as many years for a general treaty on all aspects of sea law.

The document seems likely to be called "the composite text." It will succeed the "revised single negotiating text" of 1976 which replaced the "single negotiating text" of 1975.

"We've reached a critical stage," U.S. delegate Elliot Richardson told The Associated Press.

Southeast Alaska Empire, Juneau, Alaska, Monday, June 27, 1977

Alaska Fishermen Double Crab Take

ANCHORAGE (AP). — Alaska fishermen have more than doubled last year's Bering Sea tanner crab catch and gained a foothold in the sea's eastern crab fishery.

State Department of Fish and Game biologist Jack Lechner of Kodiak told the North Pacific Fisheries Management Council on Saturday that the 1977 harvest probably will reach 50.5 million pounds, compared with 22.3 million pounds last year and 5 million in 1975.

Last winter Kodiak fishermen outlined expansion plans and appealed to the council to cut back the Japanese quota in favor of the Alaska fleet.

The council is required under the U.S. 200-mile fisheries zone law to make available to foreign fishermen those stocks which are not utilized by American fishermen. The panel opted to wait and see what the Alaska fleet could do this season.

"I'm delighted at what Alaskan fishermen have accomplished," said council member Charles Meacham after the report from Lechner.

Council Chairman Elmer Rasmuson said congratulations also should be extended to

processors "who have risen to the occasion by processing this big harvest."

Meacham said expansion of the domestic effort means the council logically can recommend a cut in the foreign quota next year. The law states that the foreign take in any fishery can be cut back or eliminated if the domestic fleet and processors demonstrate the ability and willingness to harvest the resource.

THE JAPAN TIMES WEEKLY,

April 30, 1977

China Warns Tokyo, Seoul On Sea Pact

China lodged a formal protest with the Japanese Government last week over the Japan-South Korea continental shelf development agreement now before the Diet for ratification, it was learned Sunday.

The protest was filed orally by Sung Wen, first secretary at the Chinese Embassy, when he met Takashi Tajima, chief of the Foreign Ministry's China division, at the Foreign Ministry to be briefed on Japan's proposed 200-mile fishing zone, Tajima said Sunday.

Sung told Tajima the agreement violates the sovereignty of China and warned that if Japan and South Korea "arbitrarily" develop the area covered by the agreement, the two nations must bear the responsibility for any consequences arising out of the development.

The division of the continental shelf in the East China Sea must be decided in consultation with China, Sung said.

The protest is similar in content to an announcement by China immediately after Japan and South Korea signed the agreement in January 1974. A similar statement was conveyed to the Japanese Embassy in Peking by the Chinese Foreign Ministry last week.

Japanese Fishing Boat Leaves Sitka After Citation

A Japanese fishing vessel cited Thursday for violating America's 200-mile fishing limit was allowed to leave Sitka over the weekend, an official of the National Marine Fisheries Service in Juneau reported this morning.

The fishing vessel, the 165-foot "Tenyo Maru No. 25," had been cited Thursday by the Coast Guard when the boat arrived in Sitka after having failed to notify the Coast Guard that it had entered the U.S. fisheries zone. Federal law requires foreign fishing vessels to notify U.S. officials within 24 hours before they begin fishing in American waters.

Fred Maldonado, a Coast Guard spokesman in Juneau, Friday said the boat had failed to make such a notification and reportedly had been seen fishing for several days before arriving in port at Sitka.

Harry Rietze, regional director of the National Marine Fisheries Service in Juneau, this morning said his agency will process all the evidence obtained by the Coast Guard in its investigation which concluded over the weekend and then bring civil charges against the craft.

Rietze said the citing of the vessel marked the fifth administrative-civil issued citation by the government in Alaska since the 200-mile limit went into effect March 1.

He explained the failure of the craft to notify authorities of its commencement of fishing in American waters, even though the craft was fully licensed in every other way, is being treated as a serious violation of the act.

"It's very important that we take action since we don't want to allow foreign vessels to establish the practice of not checking in with us when they enter our territory. If foreign boats fail to check in, it could destroy our bookkeeping system and hurt the entire act."

"We'll be very insistent that all boats notify us when they enter our waters," Rietze said.

Maldonado this morning reported the Thursday incident marked the 53rd boarding of a foreign fishing vessel by the Coast Guard since March 1—31 Japanese, 21 Soviet and one South Korean boat being checked. Overall, seven of the boats have been found in violation of the new law, two of the boats escaping with written warnings.

Rietze this morning said that court charges formally would be filed against the first violator cited under the act later this week.

Maldonado said Friday each day of fishing is considered a separate violation under the 200-mile act and the vessel's owners could be fined up to \$25,000 for each violation.

Southeast Alaska Empire, Juneau, Alaska, Friday, June 24, 1977

Whaling Commission Slashes The Quotas

CANBERRA, Australia (AP)

The International Whaling Commission today slashed whale quotas an average of 35 per cent for next year and drastically reduced the number that can be taken in the North Pacific.

The ruling angered Japanese and Soviet delegates to the commission, who said the reduction in the North Pacific threatened to ruin their large whaling industries.

The commission reduced the total sperm whale catch in the North Pacific from this year's 7,200 to 763. The humpback whale

quota was dropped from 1,000 to 524 and minke whales from 541 to 400 in the North Pacific.

However, the commission promised to reconsider North Pacific quotas before next season. The commission said its scientific committee will hold a special meeting in November to review the North Pacific sperm whale stocks.

Depending on the findings, the commission could call a special full meeting to discuss quota changes, officials said.

Taiyo Fishery Goes Up In Corp. Earners' List

Taiyo Fishery Co. has moved up to the ninth place from the 10th in terms of income among the top 10 Japanese firms closing accounts in January.

According to figures reported to the National Tax Administration Agency, Taiyo Fisheries' sales totaled ¥481,400 million, up 5.6 per cent over the previous year. Its declared income rose 34.9 per cent to ¥2,694 million.

Taiyo officials ascribed this to the sales of nine ships, in-

cluding whalers, last year at some ¥3.9 billion.

Kirin Brewery Co. and Sekisui Prefab Homes, Ltd. retained the first and second places.

The agency also announced 59 companies, capitalized at more than ¥500 million, in nine industries reported total sales of ¥3,459.4 billion, up 12.1 per cent, and total income of ¥110.6 billion, up 22.9 per cent.

Taxes assessed on them totaled ¥38.7 billion, up 35 per cent.

Income increased for eight industries, including food, textile, paper-pulp and chemical, but decreased for the real estate industry.

Fish Industry Thrives

Thanks to higher fish prices, five major Japanese fish wholesalers listed on the Tokyo and Osaka stock exchanges have reported their best-ever sales in the last business year ended in March.

Leading the five was Chuo Gyorui Co., whose sales totaled ¥161,634 million, up 76.4 per cent, current profits ¥1,433 million, up 24.7 per cent, and after-tax profits ¥694 million, up 29 per cent.

Daito Gyorui K.K. reported an increased of 67.6 per cent in after-tax profits, Tsukiji Uoichiba Co. 48.7 per cent, Osaka Uoichiba Co. 32 per cent and Toto Suisan Co. 12 per cent.

Daito Gyorui and Osaka Uoichiba increased their dividend payments by 3 per cent (¥1.50) to 15 per cent (¥7.50), commemorating their 30th anniversaries.

Saturday, April 23, 1977

Press Comments Summarized

Fishery Talks Suspended

The Japanese-Soviet fishery negotiations in Moscow have been suspended. They were fishery negotiations in name, but in substance territorial negotiations. The Soviet insistence might prevail if the negotiations were continued, and the suspension was inevitable. Before the resumption of the negotiations, the Government must review past negotiations and make sound preparations for the forthcoming negotiations. It cannot be denied that there was an optimistic view on the part of the Japanese Government. The Russians have border questions with European countries and China. We wonder if the Japanese Government had tried to side-step the territorial issue by using ambiguous expression. The Russians did not yield on their stand that the four disputed northern islands are their territory. Lack of unity within the Japanese Government was conspicuous. A conflict of views between the foreign and the agriculture-forestry ministries was reported when the negotiations reached a climax. Needless to say, relief measures for the fishermen affected must be taken promptly. We earnestly hope the Soviet Government will understand the Japanese people's fervent wishes for reversion of the northern territory and take a broader perspective for the two nations' goodwill and friendship. — Yomiuri Shimben

May, 1977

U.S. MARITIME MONTHLY

Japan Paying High Prices For Alaska Red Salmon

Frozen red salmon imports from Alaska began to sell briskly in Japan, and the latest wholesale prices quoted at the Tokyo Central Market reportedly were rising to between \$2.01-\$2.10 per pound for size between six and nine pounds and up between \$2.24-\$2.40 per pound from earlier this year.

So far, about 500 tons of frozen red salmon have been imported from Alaska to Japan in 1977.

THE FISHERMAN — MAY 6, 1977

Pollock roe prices double

TOKYO — Prices of Alaska pollock roe in Japan have virtually doubled since last year. Latest wholesale prices at the Tokyo Central Market are given as 1,800 - 1,900 yen per kilogram (\$2.58 - \$2.69 per pound) for grade A, 1,300 - 1,400 yen per kilogram (\$2.10 - \$2.21 per pound) for grade B, and 1,000 - 1,100 yen per kilogram (\$1.61 per pound) for grade C, an increase of 80 to 100 percent over the same period last year.



Washington Bulletin

By Donald Whitaker

New Fees Proposed for Foreign Vessels

A schedule of fees to be paid by foreign vessels and foreign nations fishing within 200 nautical miles of the U.S. coasts has been proposed by the National Oceanic and Atmospheric Administration (NOAA).

The proposed schedule provides that each foreign vessel will be charged a fixed annual access fee of \$1.00 per gross registered ton, not to exceed \$5,000 per vessel. In addition, each foreign nation with fishing vessels in the zone will be charged a fee of 3.5 percent of the total dockside value of the pounds of fish allocated to the nation. The value will be determined by the price received by U.S. fishermen for the species in the U.S.; if there is no U.S. market, an average foreign dockside price will be used.

The Department of Commerce agency estimates that about 1,400 foreign fishing vessels with an average size of 1,400 gross tons are expected to apply for fishing privileges off the United States. They are expected to be permitted to catch about two million metric tons of fish, with a dockside value of about \$553 million, in 1977.

Revenue from the fees would thus amount to about \$2 million from the access fees and about \$19 million from the dockside value fees assessed against the foreign nations. In addition, up to \$750,000 may be collected from the foreign vessels for the cost of U.S. observers on 20 percent of the vessels.

In sum, the U.S. would thus recover about 40 percent of the cost incurred in permitting foreign vessels to fish within the 200-mile zone.

The total annual cost of research, administration, enforcement and other aspects of managing the 200-mile zone is estimated to be about \$92 million. The value of fish taken by foreign fishermen is about 60 percent—\$553 million—of the total value of the combined U.S. and foreign catch of \$920 million. Thus, according to the National Marine Fisheries Service (NMFS), about 60 percent of the total cost of the program, \$55 million, can be attributed to foreign fishing.

NMFS also estimates that about \$70 million of the total \$92 million required to manage the zone would be needed even if foreign fishing were totally excluded from the zone, owing to the need for stock assessment and enforcement activities.

United States commercial fishery landings for 1976 are forecast to be 5.2 billion pounds—the largest in 10 years—according to the National Marine Fisheries Service. This represents a seven percent increase over 1975.

The record dockside value, exceeding \$1 billion, is due to a steady increase in foodfish catches and to generally rising prices.

NMFS says that total quantities of domestic tuna processed by California canneries are running at least 10 percent ahead of 1975, as are those of domestic fish at canneries in Puerto Rico (Puerto Rico data are not included in the 5.2 billion-pound total catch).

Landings of fish used for processing into meal and oil also appear to be above the 1975 levels. Increased production of Atlantic and Gulf of Mexico menhaden will offset a decline in California anchovy. Heavier-than-expected production of menhaden and anchovies in December could make 1976 the best year for such industrial fish since the record year of 1962.

The chief declines will be in clams and blue crabs. Resource problems with the surf clam now restrict Atlantic Clam landings which are expected to be down by a third from last year. Total Atlantic and Gulf of Mexico blue crab production will be off by about 25 percent, but fairly large resource fluctuations are normal in this fishery.

As a consequence of the U.S. extended domestic jurisdiction, and in keeping with the intent of the Act, the President has decided that the United States would withdraw from the International Convention for the Northwest Atlantic Fisheries (ICNAF) on December 31, 1976.

The United States has been an active member of ICNAF since its inception 26 years ago. The Convention has made significant contributions to fisheries conservation in the Northwest Atlantic and the United States has benefited from decisions taken by its members.

The scientific research and management of fisheries in the area, which have been carried out under ICNAF, are outstanding examples of the benefits which can be achieved through international cooperation. The President has therefore concluded that as the United States implements its legislation, it should take into account the management proposals developed at the last meeting of ICNAF in developing its 1977 Management Plans.

Fish Processor To Expand Kodiak Operation

New England Fish Co., which long has been active in fish processing in the state, plans to expand its Kodiak Island processing facility to a \$3.2 million plant for the processing of bottomfish caught by U.S. fishermen in the Gulf of Alaska.

C. R. Rogers, president of the Seattle-headquartered corporation, also said a new office has been created within the company to develop additional Asian export markets for bottomfish which will not be utilized by consumers in the United States.

A. J. Petrie has been named to head the new office.

The new Kodiak facility will be one of several the company plans to install in the Pacific Northwest to process under-utilized species, Rogers said. The plant, which is expected to be open late in September, will be capable of processing 30 million pounds of landed fish.

Spurring construction of the plant is a \$150,000 guarantee provided by the State of Alaska against first-year market losses and a matching \$150,000 from the U.S. Economic Development Administration for fishermen and plant employee training programs.

Filleting equipment, considered the best in the world, has been ordered from Germany for the new facility which is expected to have a value of \$3.3 million, including associated equipment.

New England recently is seeking vessels capable of fishing in the North Pacific for the new plant, Rogers said. He invited inquiries from fishermen to the local and regional facilities of the company.

Company officials said its actions signal the beginning of a new U.S.

fisheries industry in the North Pacific. They said for the first time U.S. fishermen will catch and U.S. plants will process pollock and other bottomfish for use by the American seafood industry and for export abroad.

Prior to this time, virtually all such species from the Bering Sea and the Gulf of Alaska — nearly five billion pounds in 1974 — were caught and processed by foreign interests. A substantial portion, however, was exported back to the United States,

contributing thereby to the total annual U.S. balance of payments seafood deficit of \$1.8 million (1976 figure), the company officials noted.

Rogers said the company's decision to move into bottomfish is the direct result of the new 200-mile fishery zone.

"Prior to the law, when foreign interests were decimating the stocks of all fish species off the U.S. coasts, the investment of capital in processing plants for species under-utilized by the U.S. would have been attend-

ed by enormous risk," Rogers said. "Who was to guarantee that the species would be there even long enough to amortize the investment in a plant?"

C. O. Perkins, vice president, also noted that the long-term prospects are good for the new U.S. fisheries in the North Pacific.

"American fishermen and processors are a long way off today from utilizing the total ocean protein sources in the North Pacific and Bering Sea.

"By 1955 Americans should be able to harvest six billion pounds of seafood there, when stocks are fully replenished, with a wholesale value of a billion dollars. We could help turn the seafood foreign exchange situation completely around."

For the last several months, U.S. processors, led by New England Fish Co., have been embroiled in a controversy surrounding an application by Korean interests for a permit to buy pollock on the high seas from Alaska fishermen for Korean fac-

tory ships.

The Korean proposal, which delayed a decision by New England to move into bottomfish, received a setback April 27 when the North Pacific Fishery Management Council, meeting here, recommended by a vote of 12-0 to deny the application for a permit for the project.

"The support we have received from the council, the congressmen and from fishermen and other processors convinced us to go forward with our plans," Rogers said.

Sablefish prices peak on Japanese markets

Prices of Sablefish in Japan rose sharply since the turn of the new year, and in late January reached 430/kg yen (\$1,354/short ton) for medium size, and 390/kg yen (\$1,223/short ton) for small size. The recent sharp gain in price for Sablefish is attributed to the general lapse in shipment of northern-water bottom fish. Informed sources are predicting further rises in price of Sablefish and other northern-water bottom fish in February and March.

Trade agreement includes fisheries

A new Italian-Tunisian fishing agreement was ratified recently by the Tunisian National Assembly. The agreement will permit Italian trawlers to fish within Tunisia's Territorial Sea for a three year period in exchange for Italian loans and a promise to import 20,000 tons of Tunisian olive oil.

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Dogfish operation for Poles approved

OTTAWA — Approval of a Polish proposal to catch and process dogfish off the British Columbia coast this year was announced last week by federal fisheries minister Romeo LeBlanc.

The operation will involve two Polish factory trawlers fishing on high concentrations of dogfish during the summer months on an experimental basis.

"We see several advantages to this proposal," LeBlanc said. "The most immediate advantage is that it will help reduce the large concentrations of dogfish which interfere with commercial and sport fishing and prey on such valuable commercial species as herring, salmon and crab."

In the longer term, he said he hoped to see establishment of a

domestic fishery for dogfish after Canadians have acquired the necessary techniques.

Fisheries Service staff and fishing industry observers will be placed on the Polish vessels not only to ensure compliance with Canadian regulations but also to learn the techniques of catching and processing dogfish from the Polish fishermen.

LeBlanc noted that dogfish had been heavily fished in the forties for the extraction of vitamin A from the livers, but with development of synthetic vitamins, commercial dogfish catches had become insignificant.

Various federal subsidy programs over the years had been unsuccessful in establishing a dogfish industry in the province, he added.

THE JAPAN TIMES,
Monday May 9, 1977 P.2

Argentina Wants Japan Immigrants

BUENOS AIRES (Kyodo) — Argentine President Jorge R. Videla has said his country will welcome Japanese fishermen as immigrants in Argentina.

This was disclosed Saturday by former Japanese Foreign Minister Zentaro Kosaka, who had met with Videla, Emilio Massera, commander of the Argentine Navy, and other Argentine leaders.

When Kosaka explained a Japanese Government idea to send idled Japanese fishermen to Argentina as fishery emigrants for possible fishing operations in waters off Patagonia, the Argentine leaders expressed positive support for the idea.

According to Kosaka, the plan is being considered by Japanese Government officials as a relief measure for Japanese fishermen who might lose their jobs or be forced to reduce their

operations as a result of the establishment of 200-mile fishery zones by foreign countries.

Argentina has been seeking Japanese cooperation in its efforts to develop a fishing industry, and it recently invited Japan to take part in an international bid for experimental fishing operations in waters off Patagonia.

A consortium of five leading Japanese fishing companies has submitted a tender, and Kosaka apparently gained the impression here that the Japanese bid will be accepted.

Kosaka also revealed to reporters that the Argentine Government has asked Japan to undertake feasibility studies for construction of three trans-Andes railroads between Argentina and Chile and a port on the Atlantic coast of Argentina.

THE JAPAN TIMES, WEDNESDAY,
MAY 18, 1977 P.5

Japanese Group Wins Argentine Fishing Deal

BUENOS AIRES (Kyodo) — The Argentine Government Monday night notified a consortium of five Japanese fishing companies of its tentative decision to grant it permission to conduct exploratory fishing operations for one year in waters off Patagonia.

The Japanese group — consisting of Taiyo Fishery Co., Nippon Suisan Kaisha, Nichiro Gyogyo Kaisha, Kyokuyo Hogel Co. and Hoko Suisan Co. — had taken part in an international bidding together with seven competitors from six other nations.

Only two foreign enterprises were to be granted the permission to catch up to 100,000 tons each of fish on an experimental basis in the waters in a bidding for the preferential right to establish fishing ventures in Argentina.

The Argentine Government will formally announce the results of the tender by July 15. The Japanese consortium thus passed the preliminary screening, but which of the six other countries — South Korea, Britain, West Germany, Portugal, Bulgaria and Poland — passed the screening besides Japan was not immediately known.

Conditions attached to the tender are: dispatching of two fishing vessels for experimental operations and one oceanographic survey ship, a feasibility study with regard to construction of related ground facilities to promote fishery industry such as ports and processing plants, low-interest, long-term loans for the Argentine Government's plan to build a fishing survey vessel.

THE JAPAN TIMES, SATURDAY, MAY 21, 1977 P.2

Central, Metropolitan Governments Take Action on Soaring Fish Prices

A series of actions to check soaring fish prices have been taken by both the central and Tokyo Metropolitan governments.

Construction Minister Shiro Hasegawa, who is serving as acting Agriculture-Forestry Minister during the absence of Zenko Suzuki, and Tadashi Kuranari, director general of the Economic Planning Agency, called on the leaders of 14 major fishery and trading companies to release their fish stocks and refrain from raising fish prices.

The Cabinet Ministers made the request in a meeting Thursday night with the companies' leaders.

Fishery Agency officials Friday solicited reports from 10 leading fishery and trading companies on their fish stocks and shipments.

Following the solicitation of the reports at the agency, 20 agency officials investigated the factories and cold-storage facilities of the companies in an effort to find if there was any hoarding of fish.

The Transport Ministry announced Friday night that it would investigate 318 cold storage facilities throughout the country in an attempt to find the cause of the recent sharp rise in fish prices.

It is the second time that the ministry has decided to take such an action in the postwar period. The ministry took the first such action in 1974, when the hoarding of daily necessities was rampant in the wake of the "oil crisis" late in 1973.

The storage places are located mostly in Tokyo, Osaka, Kobe, Fukuoka and Kushiro (Hokkaido), the ministry said.

The investigations would be carried out through the ministry's regional bureaus, it said.

The officials of the Tokyo Metropolitan Government, meanwhile, visited 16 major fishery and trading companies Thursday to urge them to report on their fish stocks.

They called on the firms to submit their reports by Wednesday. After examining the reports, the Tokyo Government will question the officials of the companies, according to an official.

Fishery Cities Are Hardest Hit By Soviet-Proposed Quota Cuts

The Soviet proposal for large reductions in Japan's fish catch quotas has raised a grave concern among fishery cities as it would deal a heavy blow to their fish processing industries.

The Soviet proposal, made in the current fish quota talks now under way in Moscow, calls for a 90 per cent reduction in Japan's Alaska pollack catch quota, for instance.

To be hit particularly hard would be Kushiro and Wakkanai in Hokkaido and Hachinohe, Aomori Prefecture,

all heavily dependent on the processing of Alaska pollack into kamaboko (fish cake).

The three cities are the bases for fishing and processing Alaska pollack and have 150 to 200 factories employing from 4,000 to 8,000 men and women.

Mayor Tatsuo Hamamori of Wakkanai said that the Soviet proposal had serious implication for his city especially because it came after the Soviet imposed a total ban on herring fishing in March this year.

If the quota reductions were

enforced as proposed by the Soviet Union, unemployment in his city would rise steeply because 40 per cent of its population are dependent on fishing and fish processing, he said.

The Hokkaido Prefectural Government and the Wakkanai municipal administration have decided to offer about 11 billion in financial aid to fishermen and fish processing businesses but this would be not much of help, the mayor said.

Mayor Tatsuo Yamaguchi of Kushiro said that his city would be driven into the worst conceivable situation because about 60 per cent of Kushiro's Alaska pollack hauls comes from areas within the Russian 200-mile zone.

Yamaguchi said that Kushiro's fishery industry would be dealt literally a fatal blow.

He said that his municipal government had extended to fishermen and fish processing business 11.5 billion in emergency loans.

Yamaguchi said that this was not sufficient to help the affected people to tide over difficulties since a large number of fishing boats would be idled as a result of the proposed quota reductions.

The mayor said that he would send a delegation of municipal officials and fishermen to Tokyo to demand full compensation for fishermen forcibly idled.

Mayor Sayiro Akiyama of Hachinohe also noted the need to increase emergency loans to fishermen and fish processing businesses in his city.

He said that most of the financial aids coming from the state to Aomori Prefectural Government had been provided to his city but he would further step up efforts in winning more state aid for the time being.

More Special Loans

The Fishery Agency Thursday set at ¥10.3 billion the amount of special loans for May to operators of some 500 fishing boats which were forced to idle at ports as a result of the Japan-Soviet Union fishery talks.

These loans follow the ¥15 billion of special loans extended at the end of April.

The interest rate for the special loans is 3 per cent, the same rate for special loans to residents in an area hit by a natural calamity of great intensity.

Since the rate is 6.5 per cent lower than the usual rate of 9.5 per cent for loans to fishermen, the government is going to pay the difference.

About 130 million yen will be lent to one pelagic trawler and about 115 million to one herring boat.

THE JAPAN TIMES,
FRIDAY, APRIL 22,
1977 P.4

Podgorny Receives Diet Mission

MOSCOW (Kyodo) — Nikolai Podgorny, president of the Presidium of the Supreme Soviet, Thursday afternoon received a 15-member suprapartisan Japanese Diet mission visiting here to help expedite the Japan-Soviet fishery talks.

The contents of the meeting were not known immediately. The meeting held at short notice was regarded as a gesture of Moscow to placate the rising anti-Soviet sentiment in Japan over the Soviet Union's stand on the fishery issue tangled with the territorial issue.

Russian authorities informed the Diet mission Thursday morning, when its members were packing up to return home, that Podgorny was ready to receive it.

The group arrived here Monday, hoping to see any of the top three Soviet leaders. Podgorny, General Secretary Leonid Brezhnev or Premier Alexei Kosygin — to explain Japan's position on the fishery issue.

Its members had talks with Soviet Fisheries Minister V.A. Ishkov and other officials on Monday and Wednesday. It planned to leave Moscow Thursday morning because it had been unable to meet any of the top three leaders. It had been reported earlier.



Dealers participate in a salmon auction after two small fishing boats unloaded 1,575 kilograms of salmon at a port in Kushiro, Hokkaido, Thursday for the first time since Japan and the Soviet Union initiated an interim fishery agreement earlier this week.

Companies Are Hotly Competing In Fish Habitat Development

YOKOHAMA — Construction and other companies are now hotly competing with each other in developing artificial fish habitats for increasing coastal fish resources.

The competition was touched off by the Government's decision to invest a total of 1200 billion over seven years to expand coastal fishery resources in the 200-mile fishery zone area.

Of the total spendings, about ¥5 billion was earmarked for subsidizing the costs to develop artificial fish habitats.

A number of companies engaged in manufacturing construction material and ocean development started development work immediately after the investment decision was made in March last year.

Fish habitats developed by these makers use both in place and materials from a factory. They are made in a variety of shapes and sizes, and are intended to be

house-like plastic model.

Since last year, about 30 artificial fish habitats developed by five makers have been sunk in the Sagami Bay near here for experiment with full support from local fishermen.

Officials of the Fishery Agency have recently inspected the fish habitats to check whether fish like living in them and whether they are strong enough not to be washed away by tides.

Artificial fish habitats weigh from 20 to 70 tons each and cost about 11 million each on the average.

Developers of large-scale fish habitats are eligible for state subsidies equivalent to 60 per cent of their development costs.

The agency expects that local governments, particularly in the Sagami Bay area, will increasingly turn to artificial fish habitats in the years ahead.

Japan Formally Accepts Quota Proposed by Russia on Salmon

MOSCOW (Kyodo) - Japan formally accepted Thursday a Soviet proposed salmon catch quota of 62,000 tons outside the Soviet Union's 200-mile exclusive fishing zone this year.

The two countries also agreed that the Soviet fishing boats this year will not catch salmon on open seas. Last year, Russia was entitled to a quota of 5,000 tons in open seas, although it hauled none.

The agreement, which virtually ended salmon fishing negotiations between the two countries, will be initiated Monday by Iwao Arakatsu, chief Japanese negotiator, and Ivan Nikonov, who heads the Soviet delegation. Formal signing is expected in Tokyo on April 28.

It was also agreed during Thursday's negotiations that Soviet inspectors will board Japanese patrol boats as before for joint inspection of Japanese fishing operations in Zone B (waters south of 43 degrees N. latitude).

The Soviet Union had been demanding that Russian patrol vessels do the inspection.

Nikonov told the Japanese negotiators he planned to arrive in Tokyo Wednesday for the signing.

Talks in Moscow will continue Friday to adjust details, including how long a period Japanese salmon fishing should be allowed this year.

The problems yet to be settled include a Soviet demand for a

reduction of Japanese fishing vessels to operate in the northwestern Pacific covered by the bilateral fishery treaty.

The agreement on Japan's salmon catch quota came after Agriculture Forestry Minister Zenko Suzuki instructed the Japanese negotiators in Moscow to accept the Soviet offer of 62,000 tons.

The Soviet Union proposed a 62,000-ton salmon catch quota, 5,000 tons more than the original proposal, during informal negotiations Wednesday in Moscow between Russian and Japanese officials.

It was, however, far short of Japan's demand for 87,000 tons.

The quota is to be applied to Zone B, which lies outside Soviet 200-mile waters and where smaller Japanese fishing vessels can operate without surveillance by Russian patrol boats.

At the news, more and more fishing boats were gathering Thursday at Kushiro Port to prepare for their operations to catch salmon. About 30 small vessels were ready at the port to go to the salmon fishing grounds, according to the association.

Gov't Approves Bill For 200-Mile Zone

The Government formally approved a bill designed to set up a 200-mile fishing zone off Japan's coasts at a Cabinet meeting Thursday, and immediately submitted it to the Diet for approval.

The bill has been hurriedly prepared in a bid to give Japan a better bargaining position vis-a-vis the Soviet Union, which has already established its own 200-mile zone, in the currently stalled fishery talks.

The bill is expected to be cleared by the Diet in time for the resumption of the Japan-Soviet fishery talks in Moscow early next month.

The House of Representatives Agriculture, Forestry and Fishery Committee will begin debate on the bill today, along with the bill to expand Japan's territorial waters to 12 miles which is already before the Diet.

The heads of all the five opposition parties pledged their cooperation in passing the bills quickly through the Diet when they met Prime Minister Takeo Fukuda Monday.

The territorial waters bill is expected to clear the Lower House Tuesday, according to a Tory opposition agreement.

If the 200-mile zone bill becomes law, Japan will become the 46th country in the world to establish such an exclusive zone.

The 21 article bill specifies that if Japan's 200-mile zone overlaps with that of a foreign country, an intermediate line between that of the foreign country will be drawn up or a line agreed upon by both countries will be demarcated.

The bill sets a fine of up to ¥10 million for offenders.

In the case fishing boats of foreign countries operate in the Japanese zone, they must obtain the permission of the Japanese Government and pay fishing fees.

As an exception, however, the bill includes stipulations which excludes fishing boats of China, South Korea and North Korea from application of the 200-mile

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zone since the three countries still have not established such zones of their own.

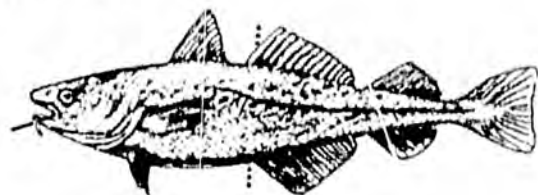
Foreign Minister Ichiro Hatoyama and Agriculture Forestry Minister Zenko Suzuki confirmed Japan's position regarding this exception again in their separate press conferences after the Cabinet meeting.

The demarcation of the 200-mile zone will be made through Government ordinances.

The Government plans to include waters off the four disputed northern islands of Kunashiri, Etorofu, Shikotan and Habomai off eastern Hokkaido in the Japanese zone.

The bill also bans operation by foreign fishing boats in international straits where territorial sea limits will be frozen at three miles even after the territorial waters are expanded to 12 miles.

PACIFIC COD



Quota Agreement Reached; Signing to Proceed Today

MOSCOW (Kyodo) — Japan and the Soviet Union reached a broad agreement Thursday afternoon on Japan's fish catch quotas within the Soviet 200-mile fishery zone for this year.

As a result, the formal signing of the bilateral interim fishery agreement will be held in Moscow Friday morning.

The agreement was reached between Japanese Agriculture-Forestry Minister Zenko Suzuki and Soviet Fisheries Minister A. A. Ishkov in a meeting from 5 p.m. Thursday.

Emerging from the 30-minute meeting with Ishkov, Suzuki told newsmen that more work by experts would be done Thursday night to make final adjustments on quotas by species of fish on the basis of the broad agreement reached between him and Ishkov.

The agreement was made possible when the Soviet Union agreed to slightly increase the initially proposed quota of 455,000 tons for Japan, June-December this year under the interim fishery pact.

Japan had been demanding that the quotas be increased substantially and more areas be opened up to Japanese fishermen within the Soviet 200-mile zone.

The Suzuki-Ishkov meeting followed two rounds of unsuccessful working-level negotiations between Makoto Okayasu, director general of

Japan's Fishery Agency, and Georgy Zhygalov, Soviet deputy fisheries minister, earlier in the day.

Makoto Okayasu, director general of Japan's Fishery Agency, attended the Suzuki-Ishkov talks.

Soviets Seize Japanese Boat

SAPPORO (Kyodo) — A Japanese fishing boat with five men aboard was captured by Soviet authorities in waters off Kunashiri Island east of Hokkaido Thursday morning, according to a report reaching the Nemuro Maritime Safety Office.

The 9.9-ton Wotoku Maru which left Nemuro Port early Thursday morning was captured while fishing at a point about four miles off the island at about 7 a.m., according to the report.

It is the second time this year that a Japanese fishing vessel has been captured by a Soviet patrol boat in the particular sea area.

During the preceding two meetings Thursday, Okayasu negotiated with Georgy Zhygalov, Soviet deputy fisheries minister, on Japan's demand that fish catch quotas be expanded nearly to the level of Japan's past fishing records and that more areas in the Soviet fishery zone be opened to Japanese fishing operations.

The Japan-Soviet talks on the quotas were however deadlocked because of the uncompromising attitude of the Soviets.

According to Fisheries Ministry sources, the formal signing of the bilateral interim fishery agreement, originally scheduled for Thursday night, was postponed until Friday due to the delay in the quota talks.

Japan and the Soviet Union initiated the interim pact under which Japanese fishing boats will be allowed to operate within the Soviet 200-mile zone Tuesday after three months of talks.

Moscow imposed a total ban on Japanese fishing for salmon and herring inside the Soviet fishery zone this year.

Eager Fishermen Head for Grounds Off Aleutians

KUSHIRO, Hokkaido (Kyodo) — About 30 pelagic trawlers which have been idling due to the delay in the Soviet-Japan fishery talks left mist shrouded Kushiro Port Thursday morning fishing grounds around the Aleutian Islands within the U.S. 200-mile economic zone.

Fishing crews from Hokkaido, Tohoku and Hokuriku looked fairly happy although strict U.S. Coast Guard vigilance against violations of the U.S.-Japan Fishery Agreement obviously foremost in their minds.

Because of the Soviet Union's establishment of a 200-mile zone, the fishing boats have been idling for about one and a half months since April.

The quota allowed for Japanese pelagic trawlers under the U.S.-Japan agreement is 85,000 tons — half of last year's catch. One pelagic trawler can catch up to 549 tons of fish.

Many fishermen complained that the quota may make fishing unprofitable. They fear that they may be fired after the current fishing operation ends.

Masayuki Salto, 41, chief fisherman of the 350-ton Yamasan Maru No. 81 from Wakkanai, who has been working aboard a pelagic trawler for more than 10 years, said, "This year, we have to care more about preventing violations than fishing itself."

SABLEFISH



International Fishing in New Era

The Japan-Soviet Interim Fishery Agreement signed by the two chief negotiators in Moscow Friday brought to an end three months of arduous bargaining for both sides over Japanese fishing in Soviet waters. With only internal procedures left to be completed in each of the signatories, the agreement is expected to go into effect shortly.

What the new accord means, in effect, is a drastic reduction in the amounts of fish Japanese fishermen can catch in the Soviet-claimed 200-mile zone, which had formerly been a key source of fish supply for Japan.

Despite this, we must note that the negotiations did chalk up a major achievement — the separation of the territorial question from fishery issues. In the very last phase of the negotiations, as a matter of fact, a Soviet proposal to alter the wording of articles caused a flurry of excitement in Japan. The final Soviet proposal in this regard was to delete one word, "other," from an article in the draft agreement. Because this revision appeared to have a significant impact on the fishery territory question, the Japanese negotiators and Government leaders scrupulously studied all the possible implications and ramifications of that semantic proposal before acceding to the Soviet request.

According to this fishery accord, the total annual catch for Japanese fishermen has been seriously reduced from the previous figures. Whereas in 1974, for instance, Japanese fishermen hauled about 713,000 tons during the June-December period, the quota for the same period of this year is only 455,000 tons.

There are many other forms of restriction. The kinds of fish and the number of fishing boats to enter the Soviet zone will be specified by the Moscow Government. Formerly, such restrictions applied only to salmon, crab and sea snail. Now, all the fishes are subject to such restrictions.

The same is true with regard to fishing areas. Previously, this type of restriction applied only to salmon, herring, crab and sea snail. Under the terms of the recently signed agreement, however, Japanese fishing boats can enter only seven areas designated by the Soviet Government within the 200-mile zone.

And likewise with catch quotas. Formerly, quotas were established only for salmon, herring, crab and sea snail. But now precise tonnage maximums are set for 14 kinds of fish and another category to cover all other forms of marine life by area. All these figures add up to 455,000 tons.

For Alaska pollock, for instance, the quota is 100,000 tons, which is allocated to such areas as the Pribilof side of the Kurils (51,310 tons), the Okhotsk side of the Kurils (7,300 tons), east of Sakhalin (35,000 tons) and the Sea of Japan (1,400 tons). What these meticulously prescribed restrictions mean is a far cry from the days when 10,000 Japanese fishing boats hauled in 1.7 billion tons of fish from the northern waters.

In reviewing the process and conclusion of the fishery talks with the Soviet Union, we cannot but note that we are indeed in a new era — that of the 200-mile fishery zone. And this requires our adjustment to new conditions — and to new concepts.

Until early this year, Japanese concern with ocean fishing had the vague feeling that even though most nations are claiming 200-mile fishing zones, we should be able to manage because these other nations have not been fishing as much as we have.

Our experience with Russia, however, has compelled these people to drastically revise their attitudes. One thing that has become clear is that the concept of "past record" — how much we did catch each year — is not a viable criterion for determining how much we can catch in the future.

One of the new concepts in this new age is a kind of "parity bias," by which all the nations, regardless of the disparity in their fish catch in the past, should fish the same amounts in one another's waters. The formula is seen at work in the European Communities' demand on the Soviet Union to sharply cut its fish hauls in the European waters. And the Soviet Union seems to have applied the same philosophy to negotiations with Japan.

The very idea of 200-mile zone, claimed by non-fishing nations over the high seas adjacent to their territorial waters, represents the same concept. Plainly put, it may be something like "I can't deliver efficiently myself. But that doesn't mean that someone else who can should be allowed to fish near our territory."

Thus, the old Japanese argument that "maritime resources are a common asset of mankind" is hardly tenable in this age of "resource nationalism."

The problem is not what we must do to readjust ourselves to the requirement of this new age. One possibility is joint venture, which has proved effective in other areas of foreign activities — industry, manufacturing and commerce. Wasn't it found by which Japan can offer her superior fishing technology to a country which, though without the technology, has natural resources developed to the maximum?

Another thought is that instead of fish caught in the waters of two different countries — which was reportedly proposed during the Moscow negotiations by Japanese Agriculture Forestry Minister Zenkai Wada.

There, of course, cannot be the role answer to the enormous problem we now face. No effort must be spared in developing fishing resources in our own waters where no international complication is likely to occur.

Fishermen Told To Adjust Boats

The Fishery Agency has ordered local fishermen to cut this year the total number of crab-fishing boats by 37 and sea-snail-catching boats by seven below their levels of last year, it was learned Sunday.

The reduction in fishing operations in the northwestern Pacific was ordered in accordance with the regulations set under the Japan-Soviet Interim fishery accord concluded last week.

These fishing boats usually depart for fishing grounds off the eastern coast of Sakhalin in mid-June. Last year, 121 crab-fishing and 34 sea-snail fishing vessels operated there.

As a result of the recent Russo-Japanese fishery talks, however, Japan's catch quota of crabs was set at 5,300 tons for this year, a sharp 61.7 per cent decrease from 1976.

In addition, Japanese hauling of tanner crabs in the western part of the Bering Sea and king crabs in the Pacific waters off the Kurils are totally banned this year.

Under the bilateral fishery accord, Japan's quota of sea snails in waters east of Sakhalin was increased by 35 per cent, to 3,500 tons, above the 1976 hauls.

But Japanese fishermen are allowed to catch sea snails only in the waters south of 36 degrees N. L., where the resources of the species are not as abundant.

The fishery agency has already ordered local fishermen to sharply reduce the number of their salmon-fishing boats to meet the requirements of the Russo-Japanese accord.

Silver Salmon Flourish In Warm Inland Sea

OSAKA — Necessity is the mother of invention, say Seto Inland Sea fishermen who have helped compensate themselves for salmon lost to the Soviet Union's 200-mile fishing zone by successfully propagating silver salmon in the warm waters off Shikoku.

Experiments conducted by the Kagawa Prefecture Fishing Co-operatives during the winter months, when water temperatures are lower, have proven that the silver salmon can adjust to its new habitat.

Seto Inland Sea salmon recently made their first appearance on the market, and fish breeders in the area, whose primary work is in raising yellowtail, are now looking to salmon as a valuable secondary source of income.

Kagawa fishermen imported fertilized salmon eggs from Alaska last December, and after hatching them in Hokkaido, stocked 100,000 baby salmon off Shodo Island and in other offshore preserves.

They found that in half a year the fish had grown in weight from 120 grams to one kilogram and had doubled in length from 20 to 40 centimeters.

The loss rate was even smaller than with yellowtail and by feeding them with plankton crustacea in the last month before beginning the harvest the fish developed a natural pink coloring.

The catches are now being sent primarily to the Kanto and Tohoku districts, but the fishing

cooperatives are also now holding tasting sessions among local housewives and cooks in the hope of expanding the regional market in the future.

In the bred salmon's first appearance at the Tsukiji Central Fish Market in Tokyo, it sold for a relatively low ¥1,600 to ¥1,200 a kilogram, but fishery officials expressed confidence that, in the future, they will be raising one million fish a year to help offset losses from foreign 200-mile restrictions.

Press Comments

Fishery Talks Over

The long and hard Japanese-Soviet negotiations on the interim fishery agreement have ended at last. The finally agreed upon Japanese catch quotas are 500,000 tons for the March-December period. The figure means a 45 per cent reduction compared with the actual hauls in the corresponding period of 1976. The agreement dealt a shock to the quarters engaged in fishing in the northern Pacific. Not only a reduction in the number of boats and the scale of operations but also the discontinuation and change of jobs have now become a pressing problem for the Japanese fishermen affected. The

Japanese people in general will also be affected in varying degrees. A decrease in the absolute volume of fish hauls will certainly push up fish prices. Japan seems to have made two errors in conducting the bargaining with the Russians. First, Japan had failed to acquire an adequate understanding of the Soviet Union. In other words, Japan had a too optimistic view about the Russians' position on the northern territorial problem. Second is that Japan's understanding of the significance of the "200-mile era" is superficial. It is true that the worldwide trends toward such an era had been touched off by the Third World countries'

strong consciousness of independence and "resource nationalism." But it is not the Third World that has made the 200-mile era an established fact and is now trying to create a new order on the basis of that establishment. It is the big power countries that have been capitalizing on the new trend generated by the Third World. Leading off the trend now is the U.S. Under the present circumstances, where the big power nations are trying to establish a new order for the oceans of the world, fish has the possibility of becoming a "strategic material," as are cereals, oil and nuclear energy. Japan's inadequate realization of this fact seems to have led to the bitter result in the recent fishery negotiations. — Asahi Shimbun

Japan Demands Larger Hauls From Soviet 200-Mile Zone

MOSCOW (Kyodo) — Japanese negotiators made a strong demand Wednesday that the Soviet-proposed fish catch quotas for Japanese fishermen within the Soviet 200-mile zone be largely increased.

The Soviet Union offered Tuesday night to set Japan's quotas in the Soviet zone at 455,000 tons for the second half of this year — a 36 per cent cut from Japan's hauls taken during the same period in 1975.

At Wednesday's negotiations, the Japanese side heard detailed explanation of the Soviet proposal concerning the catch quotas, species of fish to be caught and areas where Japanese fishermen will be allowed to fish.

The proposed quota, described by Japanese sources as too small, is for the period from the time of concluding a bilateral interim fishery pact initiated earlier in the day to the end of this year.

The offer was made following the initialing of the agreement between Susumu Matsubara, minister at the Japanese Embassy here, and P.A. Moiseyev, deputy director of the Soviet Ocean Fishery and Oceanography Research Institute.

The quota, if applied retroactively to the period beginning April 1, when Japanese fishing in the newly created Soviet fishery zone was suspended, would amount to 700,000 tons, however.

The Japanese negotiators are studying the Soviet proposal. Observers predicted that Japan will propose an increase in the quota.

The Soviet-proposed catch quota covers 17 species of fish, including Alaska pollack, cuttlefish, flatfish and sea snails, according to informed sources.

Salmon and herring fishing will be banned, however.

The Soviet Union has proposed expanded restricted zones for Alaska pollack and sea snails and crab fishing.

Japanese Agriculture-Forestry Minister Zenko Suzuki said that the drastic cut in the catch quota would develop into a serious social problem in Japan because it means that considerable number of fishermen would lose their jobs.

He indicated he would urge the Soviet side to increase the quota at the next round of talks Wednesday.

The 455,000-ton quota represents a decrease of 36.2 per cent from the actual catch volume in the waters concerned for the corresponding period of

1975.

Under the proposal, the Soviet 200-mile zone in the northwestern Pacific is divided into seven sections, and the catch volume according to species was indicated for each of the sections.

Agriculture-Forestry Minister Suzuki was planning to meet his Soviet counterpart, Fisheries Minister A.A. Ishkov, Wednesday and seek Soviet concession on the volume and the restricted waters.

Suzuki was pressed for time as Ishkov told him Tuesday night that he wanted all negotiations to be concluded so that the interim pact could be signed by 10 p.m. Thursday (4 a.m. Friday JST) because he will be leaving Moscow on a trip Friday.

Meanwhile, the two countries Tuesday signed a protocol of another agreement on Japanese salmon fishing operations in waters outside the Soviet 200-mile zone.

Under the protocol, Japan's salmon catch quota in northwestern Pacific waters was set at 62,000 tons for this year.

The protocol was signed by Iwao Arakatsu and Ivan Nikonov, chief Japanese and Soviet negotiators at the salmon fishing talks.

Besides setting Japan's catch quota at 62,000 tons, the protocol limits the fishing areas outside the Soviet 200-mile zone.

The quota for waters in the classified "A" zone, or in the waters north of 45 degrees North Latitude, was set at 29,500 tons and that for the waters in the "B" zone, or the waters south of 45 degrees North Latitude, at 32,500 tons.

The season for the "A" zone, where boats led by factory ships and medium-sized boats are allowed to operate, will end Aug. 10 and that for the "B" zone, excluding the Sea of Japan, on June 30, according to the protocol.

The initialing of the interim pact and the signing of the protocol Tuesday night brought an end to the protracted negotiations that had been conducted in Moscow and Tokyo for three months.

THE JAPAN TIMES, THURSDAY, MAY 26, 1977 P.1

Diet to Get Fishery Pact Legislation This Week

Chief Cabinet Secretary Sunao Sonoda said Wednesday a Government bill seeking Diet approval of ratification of the Japan-Soviet interim agreement on Japanese fishing in the Soviet 200-mile fishery zone would be presented to the Diet Friday or Saturday.

In his statement on the pact initialed in Moscow Tuesday, Sonoda said the Government had followed its basic policy to maintain Japan's traditional fishing interests in the northern Pacific waters and not to prejudice its position on the Japan-Soviet peace treaty talks.

He later told reporters Japan's draft proposal for another interim fishery accord with the Soviet Union, designed to control Soviet fishing in Japan's 200-mile fishery zone, would be presented to Moscow in mid-June.

The two countries would then start negotiations for the proposed pact, he explained. Agreement to this effect was reached between Japanese Agriculture-Forestry Minister Zenko Suzuki and Soviet Fisheries Minister A.A. Ishkov in Moscow Tuesday night, he said.

The Chief Cabinet Secretary Wednesday sought the cooperation of the heads of both Houses of the Diet for prompt action on the bill when the legislature receives it.

Opposition Raises Doubts

Opposition parties Wednesday raised doubts that the Japan-Soviet interim fishery agreement might jeopardize Japan's claim to the four islands off Hokkaido in dispute between the two countries.

While welcoming the provisions of the pact that permit Japanese fishing in the 200-mile Soviet zone, the Japan Socialist Party regretted that it fails to mention the territorial issue. This in effect would result in recognizing Soviet rule over the disputed islands, the JSP said.



Basic Territorial Issue Policy Reflected in Interim Pact: Suzuki

Agriculture-Forestry Minister Zenko Suzuki said Saturday the Government's basic policy of separating the fishery issue from the territorial issue with the Soviet Union was clearly reflected in the Japan-Soviet interim fishery agreement negotiated by him.

Meeting reporters upon his return to Tokyo from Moscow, Suzuki admitted the outcome of the Tokyo-Moscow fishery talks was "unsatisfactory" in terms of catch quotas.

The fishery negotiations over 80-odd days had rough going because they became tangled with the territorial issue over the four Soviet-held islands off Hokkaido, he explained.

Suzuki and other members of the Japanese delegation to the fishery talks in Moscow returned to Tokyo International Airport at about 11:30 a.m.

He told reporters he had made it clear to Soviet Fisheries Minister A. A. Ishkov Japan would not allow Soviet fishing vessels to operate within Japan's territorial waters which are to be extended from three to 12 miles in July.

Japan's position on this point is reflected in Article 2 of the interim fishery pact signed in

Moscow Friday, Suzuki said.

Asked about the impact of the agreement on the territorial issue, Suzuki said the provisions of Article 8 of the pact will not adversely affect future talks over the territorial issue in the view of the Japanese Government.

The article reads that "No provision of this agreement shall be construed in such a way as to prejudice the positions or views of the government of either country on various problems of the law of the sea under consideration at the third U.N. Conference on the Law of the Sea and also on various problems concerning mutual relations."

The last clause implies Tokyo's claim to the disputed islands, according to explanations offered by Government officials.

Moscow banned Japanese salmon fishing in the 200-mile Soviet zone on the basis of the principle that salmon bred in rivers of a country belong to that country even while in the sea, Suzuki said.

The Japanese catch quota of 455,000 tons in the Soviet zone for the latter half of this year and the seven fishing areas open to Japan under the pact

are for only this year, and separate agreements would be needed for the future, Suzuki said.

Suzuki said new negotiations would be started between Tokyo and Moscow in mid-June to conclude another agreement to control Soviet fishing in Japan's 200-mile offshore fishing zone.

The forthcoming talks would not progress unless the Soviet Union recognized the waters to be covered by Japan's 200-mile zone and, therefore, Japan's position on the disputed islands would be clearly mentioned in the new pact, he explained.

'No Alternative'

Tomoyoshi Kamenaga, chairman of the Japan Fisheries Association, told a general meeting of the association Saturday that the outcome of the latest Japan-Soviet fishery negotiation is unsatisfactory but his group has no alternative but to accept it.

He said the fishing industry should make concerted efforts to overcome difficulties expected in the upcoming fishery negotiations with South Korea and safeguard fishermen's interests.

Future of Fishery Pacts

Japan's catch quota for this year allowing for Japanese fishermen to operate within the Soviet Union's 200-mile zone has been reduced by nearly 40 per cent from last year's. This is a heavy blow to Japan's fishing operations in the northern waters. The Government, in view of its bitter experience in the fishery negotiations with the Soviet Union, will have to make preparations for the forthcoming negotiations with the United States and the Soviet Union for long-term fishery pacts as well as those with other

nations. This nation has been able to secure quotas for salmon for this year, but both the United States and the Soviet Union are likely to stiffen their stand on next year's quotas. At present, the Soviet Union is negotiating with the European Community on fishery operations. Depending upon the outcome of these negotiations, the Russians may shut out Japanese fishermen from their coastal waters from next year. At any rate, this nation is now compelled to rely on its coastal fishing operations. As pointed out in the recently published white paper on fishery, Japan's coastal fishing grounds have been damaged by industrial waste and other pollutants. Here we also see the Government's delay in coping with the situation. — Mainichi Shimbun

At long last the Japanese-Soviet fishery negotiations are over. Japan's catch quota fixed for this year within the Soviet Union's 200-mile zone is far from satisfactory. This is a brutal blow to Japan's fishing operations in the northern waters, which used to yield about ¥300 billion worth of fish a year and employed 110,000 fishermen. But we cannot blame the Soviet Union for all this. The United States also fixes catch quotas for its fishermen first and then allocates the rest to foreigners, who are required to pay fishing fees. The Soviet Union, which gives great importance to fish as an animal protein source, has been shut out from the coastal waters of the United States and the European Community, and the Russians

are trying to increase their catches in their own coastal zone to make up for their losses in the American and European zones. The cold reality of the era of 200-mile zones is that past fishing records do not apply. On this occasion of the completion of the Japanese-Soviet fishery negotiations, we should fully realize that this nation needs to formulate a food policy to cope with the situation and to restructure its fishery policy — Tokyo Shimbun

MEMORANDUM

OFFICE OF THE GOVERNOR

TO: [The Honorable Sterling Gallagher
Commissioner
Department of Revenue

DATE : July 25, 1977

FROM: Ron Lind
Division of Budget and Management
Office of the Governor

SUBJECT:

Jay S. Hammond
Governor

As we have discussed, a high priority issue of this Administration is the need to switch the financing of State operations from a non-recurring (particularly, oil dependent) basis to recurring revenue sources. There are several possible strategies for accomplishing this objective. I would appreciate your participation proposing and evaluating the pros, cons, and probabilities for success of various methods.

As an early step in this analytical process, my Division of Policy Development and Planning, after discussions with your agencies, commissioned a short report by the Institute of Social and Economic Research. This report outlines possible approaches to "fiscal planning" for the state.

I am forwarding copies of this paper for your information. Please comment. I would also like to receive recommendations you wish to offer regarding possible solutions to the long-term fiscal problem, as well as a delineation of specific steps which will be necessary to begin the shift in financing base.

JSH/dp

Q: Are not all revenues non-recurring?

Q: what are recurring revenues -
even the personal income tax takes a
percentage from oil production, transportation
etc activities roughly equivalent to that
oil provides for the whole state budget