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CHAPTER X. MARKETING

As a result of the precipitous decline in Alaska salmon prices in 1991, Governor Hickel formed the Salmon Strategy Task Force. The purpose of the group was to identify the problems facing Alaska's salmon fishing industry and recommend state actions to address these problems. A primary focus of the task force was salmon marketing. The task force recently finalized its recommendations. To avoid duplication with the task force's efforts, it was decided that the Legislative review of the Alaska salmon enhancement program would analyze the economic costs and benefits of the enhancement program and review past state salmon marketing efforts. In addition, as part of the legislative review, the Salmon Strategy Task Force's final recommendations are summarized (a copy of the Task Force's report is attached).

INTRODUCTION

The Alaska Seafood Marketing Institute (ASMI) was established in 1981 as a quasi-state corporation in the Alaska Department of Commerce and Economic Development (DCED). The institute's statutory responsibilities include:

- To conduct educational, research, advertising, and sales promotional programs to increase awareness of all species of seafood and their by-products that are harvested in Alaska.

- To develop quality specifications to enhance the high quality image of Alaska seafood worldwide, and to adopt recommendations for the handling of seafood from the moment it is caught until it is shipped to the marketplace.

- To prepare market research and product development plans for all species of seafood and their by-products harvested in Alaska.

State statutes prohibit ASMI from favoring any region, product, or processor. For that reason, ASMI uses "generic" marketing campaigns aimed at enhancing the sales of particular "species" of fish or broad product categories (such as canned or frozen) rather than specific products. Also, because it is likely to favor individual processors, ASMI does not promote new products.

ORGANIZATION

Board of Directors

To accomplish its statutory mission, the ASMI organization consists of a board of directors, numerous committees, and a relatively small number of staff. Policy and program direction is set by the 18-member board of directors. The board membership consists of 12 fish processors, 5 commercial fishermen, and 1 public citizen. Of the 12 processors, 8 are to be appointed from "large processors" (annual Alaska payroll of $1 million or more) and 4 are to be appointed from "small processors" (annual Alaska payroll between $50,000 and $1 million). Although not required by statute, the board has three non-voting ex-officio members: the DCED commissioner, and a legislator appointed from each chamber.

Committees

The ASMI committee system is extensive with the largest portion being a system of marketing committees. The primary marketing committee plans the generic Alaska seafood marketing program for the domestic market. Committee members include the chairs from the five individual species committees (halibut, shellfish, canned seafood, whitefish, and salmon), plus the chairs of the export and quality committees, and two board members. The philosophy of the primary marketing committee is to promote Alaska seafood through the development of long-term marketing goals and strategies.

Under the marketing committee are the five individual species committees. These committees generically address marketing concerns related to their particular species group. The philosophy of the individual marketing committees is to promote the species with short-term marketing goals and strategies that are consistent with the long-term goals and strategies of the marketing committee.

The quality and export committees develop industry guidelines for the care and handling of seafood and oversee the federal Targeted Export Assistance (TEA) program, respectively. The TEA program was developed to increase U.S. exports.

Most of the members of the marketing committees are marketing specialists employed by the fish processors represented on the ASMI board. Other committee members are representatives from fishery organizations that are knowledgeable about the fishing industry.

Staff

The ASMI executive director is selected by the board of directors and permitted to hire additional staff upon approval of the board. The central staff members include: communications manager, comptroller, quality coordinator, special projects coordinator, and office manager. In the past year, ASMI was authorized to hire four additional marketing specialists who had previously worked with ASMI as contractors.

ASMI FUNDING SOURCES

A portion of ASMI's funding is derived from a self-imposed seafood marketing assessment. All fish processors who purchase annually $50,000 or more (ex-vessel value) of seafood pay an assessment of 0.03 percent of their total purchases. These assessments are collected in the state's general fund and are appropriated annually to ASMI. The balance of ASMI's funding is derived from state general fund and federal appropriations. Table 1 shows funding sources and levels since FY 82.

According to an ASMI briefing paper, ASMI has spent nearly $35 million in the domestic market since 1981 in their "generic" seafood marketing program. Since FY 88, an additional $24 million was spent in foreign markets, using federal funds and small state general fund matching appropriations. ***Federal funding, which has increased as a result of the TEA program, is restricted to international marketing efforts.*** In contrast, state general fund appropriations have declined in recent years. In addition, because processor contributions are based on ex-vessel values, the industry assessment will decline approximately $600,000 in FY 92. Given the outlook for Alaska salmon

ASMI FUNDING HISTORY

(in millions of $)

FY	GF	Ind.	Fed.	Total	Domestic	International
1982	2.07	--	--	2.07	2.07 (-overhead)	
1983	5.66	1.15	--	6.81	6.81 (-overhead)	
1984	2.57	1.29	.10	3.96	3.1	
1985	2.57	1.04	.34	3.95	3.3	
1986	2.6	1.0	--	3.6	3.15	
1987	1.93	1.49	.25	3.68	2.7	
1988	1.63	2.65	2.2*	6.48	3.22	2.4
1989	2.1^	3.3	5.2*	10.6	3.9	5.8
1990	2.2^	3.2	4.5*	9.9	3.8	5.1
1991	2.45^	2.7	8.78*	13.93	3.6	9.5
1992	2.1^	2.6+-	?*	??	3.0+-	??
TOTAL	27.88	20.42	21.37	64.98	38.65	22.8

^ This general fund total includes general fund matching dollars for the federal funds. The general fund match is used in foreign markets and is not available for domestic marketing. In FY89 and FY 90 the match was $495,000 each year, in FY91 it was $750,000 and in FY92 it is $750,000.

* The federal fiscal year is different from the state fiscal year so the figures for the federal funds are not available on the same cycle as the state dollars.

Prepared by the Alaska Seafood Marketing Institute, no date.

prices, industry contributions can be expected to remain below historic levels. ***State general fund appropriations and industry contributions are used primarily to fund domestic marketing efforts. As a result, ASMI will have fewer resources for domestic marketing at a time when the domestic market has been identified by analysts as having the greatest potential for increasing sales of Alaska salmon.***

EFFECTIVENESS OF ASMI'S MARKETING PROGRAM

When ASMI was established, the Alaska salmon industry provided most of the U.S. production and about half of the world production from wild and ocean-ranched salmon stocks. As a major supplier, the generic marketing of Alaska salmon was relatively effective. A recent Legislative Audit report evaluated whether there has been an increase in awareness of Alaska seafood since ASMI's inception. The audit report analyzed ASMI effectiveness based on the following criteria:

- Perception that Alaska is the best region for seafood.
- Awareness of Alaska as a seafood-producing region.
- Positive beliefs/attitudes toward Alaska seafood.
- Awareness of Alaska seafood advertising.
- Association of seafood species with Alaska.
- Awareness of seafood species.

The Legislative Audit review of market research provided by ASMI, concluded that increases had occurred in consumers' perception of Alaska seafood. In addition, consumers are more aware of Alaska as a seafood-producing region.

Despite these overall improvements in consumer perceptions and increased consumption of seafood, Alaska has lost a significant share of both the domestic and international salmon markets as a result of the tremendous growth in world farmed-salmon production. The dramatic rise in production and growing acceptance of farmed salmon as a source of fresh salmon represents the single greatest threat to the Alaska salmon market. The consistent year-round availability and quality of fresh, farmed salmon has made wild (and ocean ranched) Alaska salmon, with its short fresh season and quality and supply inconsistencies, a secondary choice for a large number of buyers. United States and foreign markets generally prefer fresh over frozen salmon.

According to ASMI board chair, Bob Waldrop, the large farmed-salmon producer nation of Norway spends about five cents per pound marketing salmon, while only one cent per pound is spent marketing Alaska salmon. ***The new producers of salmon are out-competing Alaska producers in product preference, quality, availability, and marketing.***

Another problem is the fact that canned salmon production represents 59 percent of all retail salmon volume. U.S. per capita consumption of canned salmon declined 60 percent from 1980 to 1989, at the same time that harvests of pink salmon--the majority of which is canned--increased approximately 50 percent. Canned salmon suffers from an "old-fashioned" image with most younger consumers. The bones and skin also result in the perception that it is inconvenient and unappealing. In foreign markets, canned salmon markets have declined primarily due to price effects.

Analysts who are critical of ASMI's marketing programs maintain that the "generic" approach promotes all salmon, regardless of origin, because Alaska products are not clearly identified in the market. They argue that without brand identification and a quality assurance program to guarantee that Alaska salmon is superior, generic marketing may actually be helping Alaska's competitors.

LABELING OF ALASKA SALMON

A recent *Consumer Reports* article attacking the quality of seafood sold in the United States has caused considerable concern within the Alaska fishing industry. The industry already faces difficult marketing challenges in a changing competitive environment. Despite its flawed methodology and lack of specificity, the report's potential impact on Alaska must be taken seriously.

The Consumer Reports article also illustrates the problem of insufficient labeling of seafood products when sold in retail markets. The salmon samples tested in the report could not be identified by species, origin, or whether it was wild or pen reared. The Alaska Seafood Marketing Institute has recently developed a new U.S. promotion of Alaska salmon in order to meet increasing market challenges. This promotion is to emphasize the freshness and purity of Alaska's wild salmon. However, without specific labeling of salmon products as to species, state of origin, and identification as to whether wild or pen reared, the effectiveness of such marketing will be reduced.

To address the labeling problem, the Alaska State Legislature sent a letter to the Alaska Congressional delegation requesting that they introduce federal legislation requiring the labeling of seafood products. Proper labeling will ensure that consumers can identify and select Alaska salmon, and provide better information and clearer choices in the market place. It would also reward those states that maintain strict quality control programs, such as Alaska, and ensure that the benefits of promotional efforts accrue to Alaska.

It should be noted that Alaska does have a statute that requires that any farmed salmon sold in the state must be labeled that it is farmed and is from outside Alaska.

THE SALMON STRATEGY TASK FORCE RECOMMENDATIONS

The Salmon Strategy Task Force finalized its recommendations on January 24, 1992. The Task Force's provided immediate, mid-range, and long-range recommendations which are summarized below.

Recommendations for Immediate Action. 1) ASMI should develop a budget and strategy for selling the existing inventory surplus of Alaska salmon; 2) processors and fishermen should initiate price negotiations early; 3) The University of Alaska, DCED, and ADF&G should provide the best possible information to fishermen regarding world salmon markets; 4) DCED should review Prince William Sound processing capacity; 5) DCED and the Alaska Commercial Fishing and Agriculture Bank (CFAB) should provide loan extensions as needed.

Mid-Range Recommendations. The mid-range recommendations include actions for product and market development, salmon quality, and marketing and a review of ASMI's role.

Long-Term Recommendations. The long-term recommendations include the development of a strategic plan to help strengthen the fishing industry and its support sector. This includes an integrated marketing and production strategy, a review of loan and limited entry permit policies, a review of ASMI, a review of fish tax policy, and the reduction of regulatory burdens to lower costs. ASMI's Salmon Recovery proposal is included in the Task Force's long-range recommendations as well as its recommendations for immediate action. This proposal is discussed in the following section.

The ASMI Salmon Recovery Proposal

One of the recommendations of the Salmon Strategy Task Force is ASMI's Salmon Recovery Proposal. According to an ASMI briefing paper, the ***goal*** of the Salmon Recovery Proposal is to increase annual per capita U.S. salmon consumption from 1 to 1.5 pounds. This increase would absorb an additional 119 million pounds of salmon each year or about 15 percent of Alaska's annual production. Of the expansion, 60 percent would be frozen and 40 percent would be canned salmon.

The ***strategy*** of the program would be a combination of consumer and trade education and advertising, direct trade contacts, and other promotional methods used by ASMI over the last decade. Instead of patchwork, crisis-response marketing, this would be an integrative approach tying all marketing elements together. The basis for the marketing effort comes from a number of core issues identified by ASMI. These include:

- trade and consumer preference for fresh salmon,
- decreased consumer consumption of canned salmon,
- low consumer knowledge and awareness of Alaska salmon products,
- negative consumer perception of quality of frozen and canned salmon,
- limited regional and seasonal purchases of Alaska salmon,
- limited food-service use of Alaska salmon, especially canned,
- fluctuating supply and prices of Alaska salmon, and
- increased competition.

It is unclear from ASMI's information how consumer and trade preference for fresh over frozen and canned salmon is expected to be changed. It appears that efforts will be made to increase overall salmon consumption while convincing purchasers that Alaska frozen and canned salmon are also high quality products. To avoid merely expanding the farmed-salmon market, central to ASMI's recovery program is an Alaska salmon product identification promotion using a logo or seal of origin. This is similar to the "Alaska Made" program.

ASMI does have a record of success. As a result of direct marketing, Alaska canned salmon exports to the United Kingdom increased from 370,000 cases to 946,500 cases between 1989 and 1991. However, unless this product identification campaign is very successful and/or ASMI's generic marketing approach is modified, there is significant risk that the Salmon Recovery Program could benefit international farmed-salmon producers as much as it would the Alaska industry.

The ***cost*** of the proposal is $10 million annually for five years, totalling $50 million. A lower annual amount would be needed after the first five years to sustain the marketing effort. ASMI has identified some potential sources of funds as follows:

1) state general fund appropriations,

2) a raw fish tax credit,

3) an endowment from the *Exxon Valdez* settlement as part of the restoration agreement,

4) a redirection of salmon enhancement taxes paid by fishermen to regional aquaculture associations, and

5) a combination of the above sources.

In reality, a raw fish tax credit amounts to an indirect state appropriation because a small amount (0.03 percent) of the foregone general fund fish tax revenues would then be paid in the form of industry processor contributions. Unless the legislature deems that a well specified and directed raw fish tax credit is desirable public policy in and of itself, a direct state general fund appropriation to ASMI is a superior method for funding the proposal.

Regarding a redirection of the enhancement tax, ASMI states that Alaska does not have a salmon production problem but a salmon marketing problem. While this may be true, the pass-through salmon enhancement taxes pay for the operation and/or repayment of state loans for salmon enhancement projects. As a result, this funding source is also an indirect state appropriation---the funding the aquaculture associations would forego would reduce payments on state loans and/or require additional operating loans. In general, if the legislature supports the salmon recovery proposal, a direct appropriation would be the best fiscal approach for funding the program.

Senator Jones has introduced legislation to appropriate $10 million to ASMI for domestic salmon marketing efforts during Fiscal Years 92 and 93.

ALTERNATIVE PROPOSALS TO INCREASE MARKETING EFFORTS

Proposed Changes to Alaska Statutes:

A number of pieces of legislation have been introduced to address the salmon marketing problem. The general intent of the legislation is to provide funding for the immediate increased promotion of Alaska salmon and to increase the voice of fishermen in those marketing efforts either through changes to ASMI or creation of a new salmon marketing association. Funding for increased marketing efforts would be provided through temporary marketing assessments.

• Representative Gene Kubina has proposed legislation to create six regional salmon marketing committees and the Alaska State Salmon Marketing Association. Two fishermen from each committee would sit on the association. Funding for marketing efforts would be provided through a 1 percent marketing tax on value of salmon landed.

• Representative Dave Choquette introduced legislation that would expand ASMI's statutes to allow for targeted development of Alaska salmon markets and product development.

•Representative Bill Hudson introduced legislation that would impose a temporary one percent (1%) marketing tax on the value of salmon landed and increase the ASMI Board of Directors by two positions that must be filled by commercial fishermen.

•Senator Dick Eliason introduced a bill that would establish a temporary one percent (1%) salmon marketing tax and a committee within ASMI to provide fishermen with control over how the funds would be expended.

•Representative Cliff Davidson and Senator Fred Zharoff have introduced legislation that would endow the Alaska Fisheries Development Foundation to fund fisheries development research projects.

Development of a Salmon Marketing Council

Under the federal Seafood Promotion Act of 1986, after rigorous fisherman and processor review and approval, a salmon marketing council could be developed to increase the U.S. marketing efforts of salmon. If properly organized and chartered, a "National Salmon Council" would have the power to assess industry participants for funds to be used for salmon promotion and marketing, product research, and consumer education. The council would also be able to develop and offer salmon quality standards for U.S. Department of Commerce approval.

Marketing Efforts by Groups Such as PWSAC

Recognizing the need to develop markets for their very successful salmon hatchery production, PWSAC has established a product development strategy.

As part of this development strategy, in the short-run PWSAC would like to: (1) pre-sell all 1992 cost-recovery fish, (2) ensure the utilization of all cost-recovery fish, and (3) negotiate one-to-three year contracts for the sale of fish. PWSAC does not intend to tie price contracts to anticipated ex-vessel prices and would like any contractual agreements to require primary processing in Alaska. ***In the long term, PWSAC would like to facilitate pink salmon product development to provide price and supply stability and continuity, and to facilitate state research on new product forms.*** PWSAC would use cost-recovery fish to achieve these objectives.

The primary marketing obstacle identified by PWSAC is processing capacity---getting the fish out of the water as whole frozen fish. While there is sufficient canning processing capacity in the Sound, the decline in canned salmon markets results in little demand for the abundant pink production by canning processors. PWSAC has identified potential buyers of frozen pink salmon, but there is insufficient freezer processor capacity to ensure product delivery. PWSAC had hoped to utilize floating processors via the coordination of the groundfish trawl season regulated by the North Pacific Fisheries Council. While this will not occur during the 1992 season, it is an option PWSAC will continue to pursue for future seasons.

OPTIONS FOR POSSIBLE CONSIDERATION:

- Review of the state's role in the marketing of Alaska seafood, and salmon in particular, including a review of the ASMI program.

- Given that ASMI's generic approach to marketing was statutorily established prior to the significant increase in world farmed-salmon production, texpansion of ASMI's statutes to reflect changes in world salmon markets. In particular, ASMI's marketing efforts could be expanded to include new product and market development, including targeting and distribution of salmon products at the wholesale and retail levels.

- Providing funding for ASMI's Salmon Recovery Proposal.

- Supporting the Salmon Strategy Task Force's recommendation that ADF&G review the impact of fisheries management practices on fish quality, especially related to the quality of cost-recovery fish harvested in terminal areas.

- Conducting a comprehensive analysis of ASMI privatization including whether 1) privatization would provide greater flexibility and possibly more effective marketing and 2) privatization would result in the loss of control over marketing activities to the detriment of Alaska and Alaska fishermen.

- Encouragement of the development of a national salmon marketing council.

Attachment to Chapter X.

Salmon Strategy Task Force Recommendations

Walter J. Hickel, Governor
Commissioner Glenn A. Olds, Chair

State of Alaska
Department of Commerce and Economic Development
Division of Economic Development

JANUARY 24, 1992

INTRODUCTION

Governor Hickel appointed the Salmon Strategy Task Force on August 15, to investigate the reasons for the 1991 salmon crisis and to review options for industry stabilization and recovery.

Alaskans should be proud of the courage of the people and companies that started this industry years ago. The people and lifestyle of the salmon industry are a fundamental part of Alaska's history, culture and way of life.

Alaska has been the world's leading supplier of salmon. The state's salmon industry now faces strong competition from many other sources and its dominant role is threatened. Traditional markets are no longer dependent on Alaska for their needs.

The entire world is producing salmon at a record rate. For many years, Alaska's salmon industry enjoyed a market strategy based on allocating scarce resources among competing customers. In less than a decade the entire system has changed. Now the competition in both traditional and developing markets is intense, and it's likely to stay that way.

In order to compete, and indeed survive in this new environment, it is essential that all participants in the industry recognize and accept the reality of these competitive changes. The industry is facing a crisis of considerable magnitude, requiring decisive short term action and long term action to prevent the crisis from recurring.

The 1991 salmon season has forced us to recognize that the Alaska salmon industry is at a crossroads. As with many other industries in America, we must recognize that traditional business practices are no longer adequate in the face of global competition. Reevaluation and action are required.

The Salmon Strategy Task Force has made several immediate and long-term recommendations which should alleviate the immediate crisis, help stabilize the industry, and plot a course to regain our leadership role in the marketplace.

The effects of the decrease in salmon prices are profound, putting at risk state loan programs, community stability, and tax revenues to all levels of government. The seafood industry is the state's largest private sector employer, with the largest resident private sector payroll. The failure of the state and the industry to take decisive action will result in continued weakness in this economic sector and put increased demands and safety net programs.

These will not necessarily be easy changes to make. It will take a substantial commitment of time, hard work, and money. We ask that the Administration, the entire salmon industry and the Legislature work together to support the implementation of these recommendations.

Charge to the Task Force

Governor Hickel's charge was to develop a strategy to generate maximum economic return to Alaska fishermen, processors, and the state as a whole, consistent with wise use and conservation of the resource. The Task Force is to make specific recommendations to the seafood industry, the Administration and the Legislature.

The group was to focus on methods to maintain existing markets, develop alternative markets and product forms, promote secondary processing, develop necessary infrastructure, coordinate production and marketing strategies, improve salmon quality control, optimize fish tax policies and improve fish harvesting and processing efficiency. The Task Force also delineated existing salmon markets and collected and distributed information to assist fishermen and processing companies in reaching agreement.

Conditions requiring study

The major factors distressing the industry are greatly increased competition, high inventory levels, low prices, and projections of continuing high production levels. The runup in prices 1986-1988 followed by declining prices since have left many fishermen with debt loads they cannot support. The declining markets have hurt processors, exporters, and end users holding product in a declining market as well. These factors led to serious price disputes and charges of price fixing in some quarters as the 1991 season developed.

The market outlook for the 1992 season may improve somewhat for sockeye, but extremely high inventory levels remain for pinks. These species represent the vast majority of Alaska production value and volume. The early, very tentative prognosis from Fish and Game is for another big production year.

Inventory of issues

An initial questionnaire went out to 350 recipients of the Alaska Fish and Game weekly catch reports in mid July. This was followed by a second mailing of 125 in late July that added all Alaskan salmon fishing organizations, processors and legislators. The mailing solicited opinion on the issues the Task Force should address. Some 70 responses (a 15% response rate) were received. Staff collated the responses and summarized them. These responses were then categorized under nine headings for presentation to the Task Force.

Selection of Task Force

The Governor announced the membership of the Task Force on August 15. It includes broad representation from the salmon industry, appropriate state agencies, and the general public. The group provides a good cross section of the industry and policy makers in state government, while maintaining reasonable geographic balance and a practical size. The members are:

Honorable Richard Eliason of Sitka,
President of the Alaska Senate,
and a Southeast Alaska fisher;
Honorable Fred Zharoff of Kodiak,
Chairman of the Alaska Senate Rules Committee and a Bristol Bay fisher;
Honorable Eugene Kubina* of Valdez,
Chairman of the House State Affairs Committee;
Commissioner Glenn Olds,
Alaska Department of Commerce and Economic Development;
Commissioner Carl Rosier*,
Alaska Department of Fish and Game;
Mr. Ed Crane*,
President of the Alaska Commercial Fishing and Agriculture Bank;
Dr. Jerome Komisar,
President, University of Alaska;
Mr. Richard Lauber,
Vice President, Pacific Seafood Processors Association;
Ms. Hazel Nelson*,
President, Becharof Corporation,
and Bristol Bay fisher;
Mr. Greg Seider*,
Executive Director, United Fishermen of Alaska;
Ms. Sandra Tavanis*,
Co-owner, Sea Hawk Seafoods, Valdez;
Mr. Bob Van Brocklin,
Prince William Sound Aquaculture Corporation; and
Mr. Robert Waldrop,
President of the Board, Alaska Seafood Marketing Institute, and Vice President, Silver Lining Seafoods, Ketchikan.

* Editorial Committee

Calendar of work

The Task Force met four times, August 29, October 7, November 1, and November 22. Agendas and summaries of the meeting minutes are contained in appendices to the full report.

At the first meeting, the Task Force selected which of the issues raised in the extensive mail-out solicitation to pursue. Five of the original nine survived; product and market development, reducing costs of production, getting reliable information, improving quality, and marketing salmon and ASMI's role. It also became clear there were several myths at work clouding the issues. Staff reworked the five issues passed by the Task Force in the first meeting into problem statements before the second meeting.

The second meeting started with presentations on various myths, including "everyone's making money but me," "it's all just a Japanese conspiracy," and "we should stick to business as usual, the customer just thinks they want something different.". The Japanese market, salmon prices, margins and costs at various points in the industry, and ASMI's mission were discussed. The Task Force made changes to the problem statements and staff followed up the second meeting with extensive interviews of Task Force members and other experts to lay out the facts and options available to address the problems. A sixth problem was isolated and addressed in this process, the need for strategic planning. The persons interviewed, the questions asked and the options identified are in the full report appendix.

The third meeting started with presentations of the interview results and options gathered. The interview results form the main body of the full report. The Task Force then ranked the options available at that time. Some options were dropped. Staff reworked the options into general, specific, and detailed lists, and prepared a draft outline for the report.

The fourth meeting consisted of preparing some new recommendations for immediate action, and reworking the options that passed muster at the third meeting into the recommendations that follow. Some items were dropped. An editorial committee was appointed to oversee production of the report (see footnote above), and a schedule established for completion of the report.

Recommendations

The Task Force recommendations take into account budget cycles and priorities. In many cases requiring state agency action, existing budgets are not adequate to perform the recommendations. Additional funding will be required, not reprogramming of existing budgets. The Task Force expects the relevant agencies to prepare the necessary budget information, and respectfully requests full and favorable consideration by the Administration and Legislature.

RECOMMENDATIONS FOR DEALING WITH THE IMMEDIATE CRISIS

1. The Alaska Seafood Marketing Institute (ASMI) should develop a budget for immediate funding to deal with the existing inventory surplus before the 1992 season and projected 1992 production. This must be implemented as soon as possible[1].

2. Processors and fishermen should initiate market discussions early. The Task Force recognizes that the market situation will be uncertain at that time, and that the risk involved will lead to low price suggestions from processors, but recommends early discussions to provide maximum information sharing and opportunity to reach agreement. The Department of Labor (DOL) should be prepared to bring in knowledgeable mediators if necessary.

3. The University of Alaska (U of A), Commerce and Economic Development (DCED), and Fish and Game (ADF&G), should initiate and/or support efforts to expose the broadest possible range of Alaska fishermen to credible and detailed information about recent and ongoing changes, including problems and opportunities, in the world markets for salmon.[3]

4. The DCED Division of Economic Development should review the processing capacity situation in Prince William Sound, taking into account the outcome of the 1991 season, and make preliminary findings available to the Governor (and the industry) as early as is practicable. The Task Force recognizes that the capacity problems that developed in Prince William Sound were the result of the fishery being late and very concentrated, and the fish being relatively dark and small.[4]

5. The DCED Division of Investments and Alaska Commercial Fishing and Agriculture Bank (CFAB) recognize the crisis caused by low prices and the effect this has on loan payments. The Task Force encourages them to actively seek out fishermen having problems and work with them on loan extensions and other measures to minimize foreclosures.[5]

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1. The immediate ASMI program should be geared to long-term domestic market growth. The Governor could include this amount in his budget request, including a request for exemption from procurement codes for this emergency funding. The Legislature could pass this supplemental funding out as soon as possible in the session. ASMI could reprogram funds to initiate the campaign as soon as possible, prior to release of the funds, consistent with prudent financial management.

3. Provide reasonably detailed but clearly written information on prices and markets for salmon for widespread distribution in the spring of 1992 and thereafter. The information could be updated in season. A goal should be to establish a clearer understanding of the effects of market conditions and dynamics on prices.

4. DCED could prepare a supplemental budget to cover the costs of doing the necessary surveys for the PWS capacity determination.

5. Reinstatement of state funding for the ABDC (Alaska Business Development Centers) program of outreach and business assistance in rural areas has been identified as an important component in dealing with financial hardship. This organization provides one-on-one assistance with loan workouts and dealing with the IRS that is not available elsewhere.

MID-RANGE RECOMMENDATIONS

General

1. The DCED, ADF&G, and Department of Labor (DOL) should consider promoting a closer and more trusting relationship among the interests involved in the issues concerning Alaska's salmon industry. This effort should be closely coordinated with other ongoing educational and consensus building efforts.[1]

Product and Market Development

2. The Alaska Science and Technology Foundation (in fisheries area), and the U of A's Fisheries Industrial Technology Center, and Marine Advisory Program should be encouraged to expand their efforts in salmon product and market development and to coordinate their efforts in providing technical assistance and research and development in salmon products through the Alaska Fisheries Development Foundation (AFDF).[2]

3. The DCED's ability to provide international marketing information and sales assistance should be expanded. The Department's Division of Economic Development and Office of International Trade should work closely with ASMI and the Alaska Center for International Business (ACIB) to reduce risk and costs to the private sector.[3]

4. The DCED, ASMI and the Marine Advisory Program's ability to assist domestic marketing should be expanded. The Department's Division of Economic Development work closely with ASMI to reduce risk and costs to the private sector.[4]

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1. In the consensus building efforts, the agencies could organize forums and/or participate in existing trade shows and conferences. The issues examined by the Salmon Strategy Task Force could be presented and discussed with the objective of developing a consensus about the direction the state should take in the future regarding the harvesting, management, promotion and marketing of Alaska's salmon.

2. AFDF has in place a proven industry board and ability to perform, but will require administrative funding to continue operations. Salmon industry representation on their board should be expanded.

3. Specific projects could include:
   - Work to reduce tariff barriers for Alaska seafood products overseas.
   - Encouragement to foreign reprocessors to purchase or joint venture value-added production in Alaska.
   - Continuing investigation of new markets for salmon overseas where disposable income is high enough, and seafood is commonly eaten.

4. These entities could reduce risk and costs to the private sector of expanding domestic markets through:
   - Working with food service entities in Alaska and other states to promote sales and distribution of Alaska salmon products.
   - Providing start-up technical assistance to new ventures.

Quality

5. The Department of Fish and Game should reexamine management practices with the goal of obtaining the highest quality pack possible without harming the stocks.[5]

6. The Department of Fish and Game should conduct a comprehensive study in Southeast Alaska and Prince William Sound, with the cooperation of fishermen and processors, to determine the degree of risk managers should take in managing for economic efficiency and fish quality. The goal would be to identify the optimum locations for harvest.[6]

7. Industry and the Department of Fish and Game should cooperate on a program to educate fisheries managers, fishermen and industry operators on the physiological changes that occur in salmon (and hence its marketability) to encourage management that provides for the optimum use of the resource.[7]

8. Hatcheries should conduct research to determine the cause for variations in sexual maturity and other quality factors for stocks returning to hatcheries. Based on the research, hatcheries should modify their stocks and practices to optimize quality.

Marketing and ASMI's Role

9. ASMI, the FITC and the Marine Advisory Program (U of A) should expand educational programs on fish handling, cleaning, chilling, and processing for virtually all parts of the industry. Such efforts should focus on providing hands-on training from the fishing boat to the market, and on meeting the needs of the consumer for quality seafood. The effects of quality handling on the ability to market the end product should be emphasized.

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5. The reexamination of management practices could include changes in the length of openings and the timing of fisheries to optimize salmon quality. The Task Force recognizes that Fish and Game may need statutory and regulatory changes to incorporate such considerations in management decisions.

6. A controlled set of experiments to determine the optimum points of harvest for top quality could include:
   a. testing the condition of fish to determine rates of deterioration in terminal harvest and outer areas, throughout the duration of the run; and
   b. identifying the optimum location which will provide the highest quality of salmon with an acceptable risk to the wild stocks.

7. A study to examine the effects of sexual maturity on finished product quality could include the following:
   a. samples in each of the categories in ASMI's Color Guide and hatchery broodstock would be collected;
   b. portions of each category would be processed at least as headed and gutted, filleted and canned products; and
   c. the end products would then be used in a workshop setting to educate managers on the various aspects of salmon quality.

   The Task Force recognizes that a similar program budgeted at $25,000 was considered and set aside by the ASMI board, and that it may be possible to achieve the same ends using commercially-processed products. ADF&G should prepare a budget item if necessary.

10. The Department of Commerce and Economic Development should initiate and/ or encourage efforts to expose all salmon fishermen to organized, accurate and credible data concerning the salmon industry and markets in sufficient form and detail to permit fishermen's consideration of a national salmon marketing council chartered by the U. S. Secretary of Commerce under the Federal Fish and Seafood Promotion Act of 1986.[10]

LONG-TERM RECOMMENDATIONS

GENERAL GOAL

The state needs to develop a strategic plan for long term development of the salmon (seafood) resource, using recommendations of this task force as a starting point. This should focus on strengthening the support structure and sustainability of the industry. The goal would be a more rational and efficient system which is less vulnerable to market, production, and financial fluctuations. This would ensure an integrated and uniform state approach to the fishing industry.

OBJECTIVES:

- review and evaluate the institutions and relationships developed in the industry with an eye toward improving competitiveness and economic return to Alaska residents.
- bring together agencies and functions to affect a rational, consistent and sustainable program linking production, harvesting, processing, marketing and financing.
- determine the proper roles for the public and private components of the industry, integrating regulatory and developmental activities.

ACTION ITEMS

General

1. The Department of Commerce and Economic Development, in cooperation with other state agencies and the salmon industry, should organize a group with broad experience and understanding, in aggregate, of food and commodities industries, to:

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10. The Federal Fish and Seafood Promotion Act of 1986 provides that species-specific councils (roughly parallel to the National Beef Council, etc.) may be formed only after a rigorous referendum process which must include all salmon harvesters and all primary processors or harvest purchasers and may include other industry participants. If properly organized and chartered, a "National Salmon Council" would have the power to assess the industry participants for funds to be used for salmon promotion and marketing, product research, consumer education, etc. It would also have the power to develop and offer, for Department of Commerce and Economic Development approval, salmon quality standards.

a. review the functional and procedural workings of the Alaska seafood industry;
b. identify areas of inefficiency, counter-productivity and resource waste.
c. review and evaluate research and development capabilities.
d. recommend what state resources, including statutes, regulations, prestige, etc., can and should be applied to address those areas.

Fish Production

2. DCED, ADF&G, and ASMI should develop an integrated production and marketing strategy, which would:

   a. recognize marketability of the fish as an important management goal.
   b. recognize that price will be set by overall supply and demand, including the production of farmed salmon.
   c. coordinate production with wider economic goals, including processing, product development, and markets, based on dependable information and planning.
   d. better coordinate wild and hatchery production, regionally and by species and market.

Harvesting/Processing

3. The Commercial Fisheries Entry Commission, DCED, and DF&G, should develop fishery management and regulatory measures aimed at reducing operating costs, more efficiently utilizing present investments, and promoting a rational sustainable industry. Investigate ways to retain permits in Alaska and rural areas in particular, provide greater stability and enhanced revenues to resident fishermen, and increased shoreside investment consistent with sound financial standards, through:

   a. reexamination of loan policies and permit use limitations.
   b. reexamination of Alaska's limited entry system.

4. To widen options for Alaskan fishermen, DCED, in cooperation with other state agencies and the industry should consider promoting Alaskan controlled joint venture processing developments linking present investors and industry participants with new technologies and capital, and Pacific Rim and lower 48 markets. Give special attention to rural communities dependent on the salmon resource, smaller plants, local consumption and market needs, infrastructure needs, and current economic development plans.

Marketing

5. DCED should contract a major marketing research firm with proven credentials in food marketing to develop and analyze the "facts" related to salmon market trends, opportunities and weaknesses in major and potential markets. The group should also evaluate the state and industry's marketing efforts, including consideration of changes in the ASMI statute or operations, to permit, if possible, a more effective approach to marketing Alaska seafood.[5]

6. The Governor and Legislature should consider funding ASMI's $10 million per year proposal for an intensive 5 year domestic marketing campaign. The goal is to raise domestic consumption of salmon from 1 to 1.5 pounds per person annually.

7. DCED, in cooperation with ASMI and DEC, should conduct a study to find the most cost effective ways to improve consumer confidence in Alaska seafood products. The Task Force recognizes that the entire seafood industry must improve the inherent quality of the salmon it processes, the freshness and workmanship of the product, and the consistency of grading to remain competitive, particularly when competing with farmed salmon.[7]

Finance/Other

8. DCED, in cooperation with other agencies and the industry, should readdress the issue of infrastructure including but not limited to improving quality, providing cold storage capacity, and promoting value added production.

9. OMB, in cooperation with state agencies and the industry, should reexamine the policy and implementation of fisheries taxes, including the corporate income and marine fuels taxes. The State must first decide what it wishes to accomplish by taxation. While this is nominally raising revenues, any tax distorts the market in some way, and a review of the current tax structure and various proposed alternatives is in order. Of particular interest is whether targeted tax credits for research and development expenditures is feasible.

Reducing Costs and Regulatory Burdens

1. The Departments of Fish and Game and Revenue should consider combining the appropriate processor annual report forms to simplify reporting requirements for the industry. This should be done at an agency level with the agencies sharing information from each form or integrating them, and may require statutory changes.

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5. The efforts should take into account what's already been done (Salmon 2000) and focus on those areas outside ASMI's assigned and traditional role, including new product and market development. The results must be produced in a form which will permit evaluation and initiation of strategies to further enhance and stabilize markets.

7. A great deal of the input the Task Force received identified the lack of consistency in Alaska salmon products as a major marketing problem. Some Alaska product has been described as "low quality" compared to the competition. As Alaska's products become better identified in the marketplace, the Task Force recognizes that "Alaska brand" seafood must be of "good" quality, and meet the customers' expectations if customer satisfaction is to be achieved and advertising dollars well spent. Exactly how to determine those inherent quality standards, and how to ensure that the customer consistently gets the product they have purchased and expect could not be reconciled. The industry is divided on how large a role the state should play in determining quality, ranging from mandatory grading standards to no standards beyond wholesomeness.

2. The Department of Commerce and Economic Development, in cooperation with other affected agencies and the industry, should investigate ways to assist small operators in meeting the myriad regulatory requirements of various agencies. This might range from exempting processors under a specified size from filing certain forms to providing a central clearinghouse for permitting and filing information, technical advisory services and special loans for equipment such as computers and computer software.

3. The relevant state agencies should, in consultation with the Limited Entry Commission, collect child support payments from permit holders at the time of yearly permit renewal. Permit holders will be motivated to pay this fee and it will not unfairly burden processors.

4. The Departments of Revenue and Labor respectively, should relieve the burden of prepayment of the Fishery Business Tax and provision of Labor bond for companies with proven payment records and sufficient assets.