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FAIRBANKS, ALASKA 99701

COMMENTS ON A.D. LITTLE REVISED PROPOSAL (June 9, 1978)

George W. Rogers. 

The most recent revisions to the A.D. Little proposal originally made on May 5, 1978 go a long way to clarifying and making more specific what the ~~consultants~~ consultants proposed to do. The project is now organized into two phases: (1) analysis of previously collected studies and research (former tasks 1 through 3), and (2) analysis and strategy (tasks 4 through 9). Editorial changes in the descriptions of the first three tasks make it clear that they will be limited to collection and compilation. For example, instead of saying "We will identify by species ..." as in the original version, this now more accurately reads "We will collect existing data and studies which identify..." Similar changes have been made throughout. Sources of existing data have been more accurately described (e.g. "U.S. marine fisheries reports" ~~now reads~~ now reads "U.S. National Marine Fisheries Service data and reports."). The Alaska Department of Fish and Game is now listed as a source of data and reports. This may sound like a quibble, but I do believe it indicates that the first version was done in a big hurry without adequate checking on what already existed and what the sources were.

The last revised version ~~almost~~ gives an indication of the time-effort ~~planned~~ planned to be devoted to each phase. The first three tasks under phase one, which are primarily for the benefit of the consultants in bringing them up to date on the present state of knowledge, will be limited to approximately 15 percent of the effort. This is a more justifiable division of effort, although the cost probably should be shared by the consultant and not placed totally on the client.

Within the second phase, analysis and strategy, the structure or model of a "likely future industry" has been revised to reflect the additional dimensions present because of species and geographic differences, etc. Also included for purposes of comparison and analysis will be similar constructs



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of non-Alaskan based alternatives which will be attractive to investors and developers and which must be considered in the design of programs to offset any advantages inherent in such alternatives.

Under task 6, determination of infrastructure requirements, there has been added the following: "Our staff will personally visit all of the regions outlined on page 14 of this proposal. This will give us direct exposure to each of the regions of the Alaska coast." Given the time limitations of the project, the difficulties of travel and schedules to all of the Alaska coastal areas, and the existence of a large and detailed body of knowledge and information in such places as the Department of Community and Regional Affairs, Labor, Fish and Game and the Coast Zone Management office, I question the need for this element. At most it should be limited to a sampling or highly selective visitation with reliance upon material already in hand to fill out the background.

Task 9 describes the final product as a "critical path chart" which would include tactical plans and programs, etc. This would be a far more useful tool for future planning and implementation than the "cook book" approach apparently envisioned by Mr. Edenso at the June 8 meeting. This not only would allow the optimum amount of flexibility in future development of programs, but ~~could~~ could incorporate the progress already made by the Legislature and the Governor along a similar ~~critical~~ "critical path."

In addition to the names of the proposed staff members, you should also be provided with some information on their backgrounds and experience. Without a budget (which has been missing from all versions I have been provided with) it is not possible to judge the appropriateness of the \$210,00 price tag.



Arthur D. Little, Inc. ONE MARITIME PLAZA · SAN FRANCISCO CALIFORNIA 94111 · (415) 981-2500

~~May 5, 1978~~

June 9, 1978

incorporating our original proposal of May 5, 1978; our letter of May 23, 1978; and the suggestions of members of the legislature and administration made at our meeting of June 8, 1978. The purpose of the project is

Mr. Jim Edenso
Bottomfish Coordinator
Office of the Governor
Pouch A
Juneau, Alaska 99811

Dear Jim:

1-8059 (Revised)

We are pleased to submit this ^{revised} proposal to assist the State of Alaska in determining how to best encourage the development of its fishing industry.

BACKGROUND

The State of Alaska is seeking ways to diversify its economy. Arthur D. Little, Inc., recently concluded an analysis of Alaska's economy identifying sectors and industries that hold potential for economic development and diversification. One of the areas identified was fishing.

The extension of U.S. territorial waters to 200 miles by the enactment of the Fishery Conservation and Management Act of 1976 gives Alaskan fishermen access to a large supply of bottomfish previously taken by Japanese, Russian, and other foreign fishing interests. In the past, foreign fishing fleets have taken more than 4 billion pounds of fish annually from waters off Alaska, compared to only 800 million pounds caught by U.S. fishermen in the same waters.

Fishery products currently are second only to oil and gas as a contributor to Alaska's economy. Expansion of Alaska's fishing industry would increase opportunities for fish processing in the state, an activity currently accounting for more than one-third of Alaska's manufacturing employment. Bottomfishing would also reduce the seasonality of both fishing and processing employment because these fish can be taken year round.

CAMBRIDGE MASSACHUSETTS

ATHENS BRUSSELS CARACAS LONDON MEXICO CITY NEW YORK PARIS RIO DE JANEIRO SAN FRANCISCO TORONTO WASHINGTON

June 9,
~~May 5,~~ 1978

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Mr. Jim Edenso
Office of the Governor

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PURPOSE OF THE PROJECT

It is the policy of the State of Alaska to encourage the rapid expansion of its existing fishing industry (primarily a "near-shore" industry), to promote major entry into the "off-shore" fishing industry, and to develop permanent on-shore processing facilities for fish harvested in Alaskan waters.

It is the purpose of this project to determine the strategic actions which should be taken by the state to assure the accomplishment of these goals. It is believed that Alaska is in competition with foreign and other U.S. West Coast regions for the location of on-shore processing facilities and basing of the fishing fleets. The strategies developed must specifically deal with the current and expected competition from both domestic and foreign interests.

APPROACH

We have divided this project into nine separate tasks:

1. Resource Description and Analysis
2. Inventory and Description of Current Fishing and Processing Operations in Alaska and Its Waters
3. Identification and Analysis of Regulatory and Support Programs of Other Domestic and Foreign Governments
4. Analysis of Successful Regulatory and Support Strategies of Other Domestic and Foreign Governments
5. Development of a Profile of the Likely Future Industry Structure
6. Determination of Future Industry Infrastructure Requirements
7. Determination of Likely On-shore Impacts of an Expanded Fishing Industry
8. Recommendation of Objectives and Identification of Strategies to Pursue
9. Development of Implementation Plans and Programs for Alaska

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The proposed project can be divided into two phases

1. Assembly of previously completed studies and research (Task 1-3)
2. ANALYSIS & STRATEGY (TASKS 4-9)

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We estimate over 85% of our efforts will be concentrated in steps 4 through 9
Mr. Jim Edrisko
Office of the Governor

of strategic actions the State can take to encourage the expansion of the fishing industry

The approximate relationship and workflow between these tasks is shown in Figure 1.

Throughout this proposal we will refer to the "fishing industry." Unless otherwise noted, we mean that term to include:

- On-shore - fishing activities such as processing, marketing, etc.,
- Near-shore - fish harvesting such as the salmon and shell fishing which currently dominates the Alaska-based industry, and
- Off-shore - fish harvesting such as the bottom fishing which foreign interests have dominated.

During this project we plan to work closely with the bottom fish coordinators to insure that the guidelines and usefulness of the project are maintained to the state of Alaska

We recognize your desire to complete the study within 12 weeks. To meet this time schedule, we will rely extensively on existing research material and personal interviews conducted by our staff. We are prepared to start work immediately upon receipt of your authorization.

Task 1 - Resource Description and Analysis

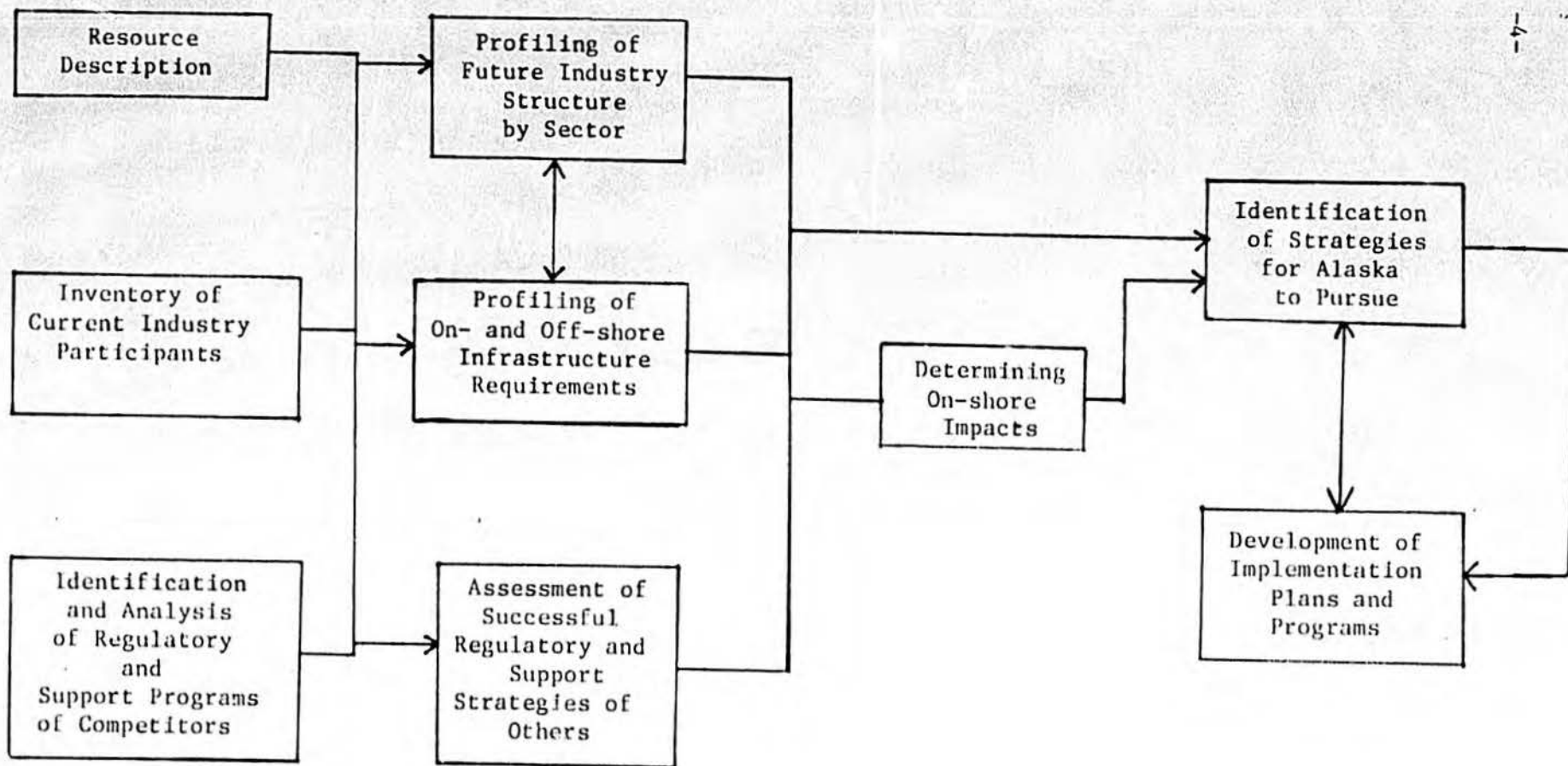
collect existing data and studies which
We will identify by species and location and characterize (quality, age distribution, parasites, etc.) the fish resource base within Alaska's waters. We will examine the data currently available concerning historical and current catch and value levels of fish taken in these waters. We will also collect *existing* data regarding the future sustainable yield levels of individual species *which have been established* by the North Pacific Fishery Management Council.

We will use ~~our~~ *existing* data sources as:

- United Nations field data
- ~~U.S. marine fisheries reports~~ *NATIONAL MARINE FISHERIES SERVICE DATA*
- ~~Preliminary~~ fishery management plans of the North Pacific Management Council
- Pacific Packer's Report
- Pacific Rim Development Commission
- National Oceanic and Atmospheric Administration reports
- *ALASKA DEPARTMENT OF FISH & GAME DATA*

We do not intend to duplicate any work already done by others. Where the existing data is incomplete we will so advise you throughout the project.

WORKFLOW AMONG TASKS



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FIGURE 1

WORKFLOW AMONG TASKS

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Office of the Governor

Our staff will personally visit all of the regions outlined on page 4 of this proposal. This will give us direct knowledge of the state of the Alaskan coast and fishing operations.

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- Foreign fish catch reports to the U.S. Department of Commerce
- Studies presently being done for Alaska

We will also interview representatives of federal, state, and local agencies; trade associations, corporations, and fishing commissions; and university experts.

Task 2 - Inventory and Description of Current Fishing and Processing Operations in Alaska and Its Waters

collect existing data which

We will inventory and describe the current foreign and domestic fishing operations in Alaska's waters. We will ~~identify~~ *seek* information covering:

- Countries and companies involved in fishing,
- Size, type, and number of boats engaged,
- Methods of harvest,
- Type, level, and locations of land-based and floating processing facilities,
- Estimated value and method of marketing the catch, and
- Markets currently served.

Expansion of Alaska's fishing industry is predicated on a sustainable market demand. We will ~~attempt to identify~~ existing and potential markets for canned, fresh, frozen, and processed Alaska fish products. Our ~~investigation~~ *investigation* will include:

collect currently available information which describes

- The identification of markets,
- An estimate of tonnage and dollar volume of the markets in selected areas,
- An analysis of price trends,
- An identification of marketing methods used by ~~such~~ other domestic and foreign fishing operations,
- An identification of import restrictions or other regulatory barriers to entering foreign markets,
- A projection of future demands, and

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- An investigation of the market share potential for Alaska's products.

This review will help us determine the most likely markets for Alaska's fish products.

Task 3 - Identification and Analysis of Regulatory and Support Programs of Other Domestic and Foreign Governments

An important element in the expansion of Alaska's fishing industry will be an analysis of the strategies employed by other countries or areas to support their fishing industries. We will identify and analyze the steps taken in the eastern United States and by European and Asian countries in support of their fishing industries.

Many foreign fishing operations receive some form of subsidy from their governments to participate in fishing. We will seek to identify the objectives of specific support programs, the levels and types of supports provided, why any subsidies are necessary, and the programs they are expected to pursue in the future. This analysis of the external subsidies provided by foreign countries will help us identify strategies, and support programs can be developed for Alaska's fishing industry that are consistent with the needs of the industry and the goals of the state.

We will also identify the important regulatory programs which are or have been used to encourage the development of regional fishing industries and/or to protect existing regional or national fishing industries.

The Fishery Conservation and Management Act of 1976 established specific rights and regulations regarding the fish within the newly created 200-mile territorial waters. We will analyze the implications and probable effects of this act and other applicable federal, state, and international regulations on the expansion of Alaska's fishing industry. We will include a review of the Jones Act and its implications for Alaska. We will also review implications for Alaska of U.S. import duty on fishing equipment other than vessels.

We expect to utilize the services of a European consulting firm experienced in foreign fishing operations and to conduct interviews with domestic and foreign governments and companies involved in fishing operations.

Task 4 - Analysis of Successful Regulatory and Support Strategies of Other Domestic and Foreign Governments

Based on the results of Task 3, we will identify those regulatory and support

Because we are dealing with multiple ^{fish} resources, ~~it is probable~~ ~~that~~ ~~it~~ ~~will~~ ~~be~~ ~~necessary~~ it is probable that it will be necessary for us to describe ~~several~~ several most likely "models" for the future industry. Our profiles will include:

For ~~our~~ comparison purposes we will also attempt to describe the ^{most attractive} alternatives available to a fishing and processing company by locating alternatives than Alaska. ^{to include vessel/catcher-processor approach.} This will help us better understand the ~~area of~~ where state action may be taken which could influence the location of these companies in Alaska.

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*will clearly indicate the need
and cost of the program.*

strategies which have worked best for others and/or appear to offer the most promise for use in Alaska. These programs will be further analyzed to determine their applicability to conditions in Alaska and to estimate the possible costs and benefits of implementing similar programs.

Task 5 - Development of Profile^s of the Likely Future Industry Structure

Having examined the size of the resource base, and future market demands for Alaskan fish, we will project the potential size and describe the likely structure of an expanded Alaska-based fishing industry. *the structure of the existing industry,* We will identify ~~and describe~~ the:

- The number and type of ships necessary to optimally utilize the fish resource.
- The number and type of processing facilities (both floating and land-based) needed.
- The regions from which we expect the various fish resources to be harvested and processed *and the markets we expect to be served.*
- Broad cost estimates for the ships and processing facilities.
- Probable domestic and foreign competition for the Alaskan resource.
- Industry revenues under high, medium, and low development scenarios.

The Alaska Department of Commerce and Economic Development recently contracted with two firms to explore bottomfish processing in an effort to collect data and encourage the development of a shore-based Alaska industry. We will ~~use~~ *use* the information developed in these studies, the results of personal interviews, and published information *to develop a likely enterprise* ~~to develop a likely enterprise~~ *representative of a likely Alaska bottomfishing and processing industry.* We will ~~estimate~~ *estimate* the total capital requirements, probable revenues, operating costs, and ~~income~~ *income* of this representative enterprise. For comparison purposes and to assess the overall attractiveness of an Alaska bottomfishing industry, we will compare the risks and financial rewards associated with ~~bottomfishing~~ *bottomfishing* ~~to those of the remainder of the Alaska fishing industry.~~ *in Alaska.*

Task 6 - Determination of Future Industry Infrastructure Requirements

The level of industry development and the timing associated with expansion

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Our staff will personally visit all of the regions outlined on page 14 of this proposal. This will give us direct exposure to each of the regions of the Alaskan coast.

of Alaska's fishing industry will depend ^{in part} on the availability of certain infrastructure support such as docks, transportation, and distribution facilities; of a trained or trainable labor force; and of various supply and service support industries. We will seek to identify the types of infrastructure needed at both the local and state levels and compare these requirements with the existing infrastructure.

Our infrastructure analysis will be done on a regional basis taking into account the existing regional facilities and the fish resources we expect to be harvested and processed from the regions. A description of these regions is attached hereto.

For the support activities or facilities which we find need to be developed, we will indicate which types tend to be developed by the private sector and which by the public sector. We will prepare order of magnitude cost estimates for the publicly-financed and supported infrastructure needed by the fishing industry.

We will gather information about the experience of other geographic areas with a fishing and fish processing industry. We will also rely on previous Arthur D. Little work in establishing fishing industries in developing economies, and on interviews with people currently engaged in the fishing industry.

We will compare critical infrastructure needs of an expanded fishing industry with the infrastructure that now exists in the regions. This information will help determine desirable future sites for both processing and fleet location. By concentrating funds and development efforts into those communities that come closest to meeting the demands of a growing fishing industry, the state can better promote entry and development of this industry.

Task 7 - Determination of Likely On-shore Impacts of an Expanded Fishing Industry

We will identify probable direct and indirect benefits associated with the expansion of Alaska's fishing industry. Examples of direct benefits to the Alaskan economy might include:

- Increased tax revenues,
- Employment increases,
- Smoothing of employment seasonality,
- Economic diversification and utilization of renewable resources, and

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- Increased gross state product.

Indirect benefits might include:

- Development of ancillary support businesses and services,
- Stimulation of other sectors of the economy due to the multiplier effect associated with increased income and spending, and
- Development of a more complex state infrastructure network.

Our analysis will also identify potential negative impacts of the expansion of the fishing industry, such as:

- Environmental degradation,
- Industry ownership by non-Alaska interests and subsequent "leakage" out of the Alaskan economy, and
- Changes in native villages or life-styles.

Task 8 - Recommendation of Objectives and Identification of Strategies to Pursue

We will work with you in establishing specific attainable objectives and timetables for the expansion of Alaska's fishing industry. We will then develop strategies to accomplish the objectives. These strategies will define the role the state should play in encouraging the development and expansion of Alaska's fishing industry.

In exploring appropriate roles of the state, we will identify current federal and state fishery programs and funds, and suggest how these might best be utilized so that state efforts will not duplicate current federal funding programs. We would also consider other federal programs, e.g. community development, economic development administration funds, etc., which might be used.

The state might encourage development through direct or indirect incentives. Direct incentives might include the attraction of capital investment by providing:

The strategies we develop will specifically deal with the efforts the state of Alaska should take to secure for the state the benefits of the utilization of its fish resources. In our view Alaska will not be able to enjoy the full benefits of its fish resources unless on shore processing is located in Alaska.

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- Price supports
- Long-term capital in the form of loans
- Loan guarantees
- Operating subsidies
- Equity capital

Indirect incentives would include such supports as:

- Regulatory programs
- Infrastructure development
- Loans provided to local governments impacted by increased service demands generated by the bottom-fishing industry
- Financial support for ancillary services
- Manpower training programs

We will identify and recommend appropriate roles consistent with the state's objectives. For each role we will develop estimates of:

- The level of funding necessary to spur development
- The type of development funding
- The financial risks and paybacks associated with the role
- The impact of recommended programs on the fishing industry

Task 9 - Development of Implementation Plans and Programs for Alaska

We will recommend tactical plans and programs designed to accomplish the objectives and strategies recommended. The tactical plans and programs will contain timetables, specific steps necessary and estimates of the cost of implementing the programs. Examples of tactics that might be considered include:

and will be presented in the form of a critical path chart detailing the steps ~~the state~~ should take to move forward.

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- Funding of equipment needed to develop capability based on existing single purpose operations. *multiple harvesting and processing*
- Expansion of existing operations through state-supported financial incentives (subsidies, loans, infrastructure development, etc.).
- Joint ventures with foreign or other non-Alaska operations.
- Attracting non-Alaskan enterprises to relocate in Alaska.
- Fostering industry growth through the native corporations.
- ~~Marketing of Alaska's bottomfish harvest~~
- Establishment of an industry association to promote Alaska-branded fish products, etc.

Staff Responsibility

I will be in charge of the program, and will look to you for general direction and policy decisions on behalf of the State of Alaska. Associated with me will be other staff members with backgrounds particularly appropriate for this study, including: Mr. Gregg Doyle, Mr. Francis Adamson, Mr. David Hurley, ~~and Dr. Cyril Holman~~ and Mr. William Ollinger.

Scheduling and Reports

We expect to complete the project within 12 weeks as you have requested. At the conclusion of the program we will make an oral presentation of the long-range and short-term developmental programs that we see as necessary for Alaska to optimally utilize the bottomfish resource. Four to six weeks later we will submit a written analysis detailing the developmental plans and the background data we have collected. We will make two interim oral reports on the progress of the project: the first at the end of week six and the second at the end of week ten.

COST AND DURATION

For the work outlined above, we propose that you authorize a budget for professional services and expenses not to exceed \$210,000 without prior approval. Expenses will include such items as travel, communications, report production, and directly related costs. Our invoices, which are payable upon receipt, will be submitted in accordance with the following schedule and in the amounts indicated:

On the first of the second calendar month in which
this agreement is effective -

\$70,000

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One month thereafter -	\$70,000
Two months thereafter -	\$70,000

After completion of the work when all our charges are known, we will submit a final invoice based on our records of the total charges for both professional services and expenses.

GENERAL PROVISIONS

Our work for clients is conducted on a confidential basis, and we will treat information developed hereunder in accordance with our established professional standards.

Since announcement to the public of our working relationship, either while it is in progress or afterward, might be mutually beneficial, we will discuss with you any opportunities we see in this area. Of course, the details of any such announcement would be confirmed in writing by both parties.

Our work will be on a best efforts basis. We trust the results will meet the objectives sought, and we have assigned to the work professional personnel having the required skills, experience and competence. In any event, our liability for damages direct or consequential resulting from this work will be limited to the amount paid us hereunder.

Any change in this agreement shall be confirmed in writing. This agreement shall be interpreted according to the laws of the State of California.

Our agreement may be terminated on 30 days' written notice by either party, or within such lesser time as we may find necessary to conclude the work currently under way and summarize our findings for you. In that event, you will be responsible only for the professional services and expenses which have been committed to that time.

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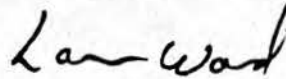
Mr. Jim Edenso
Office of the Governor

1-805' (Revised)

ACCEPTANCE

We look forward with great interest to working with you on this project. If this proposal meets with your approval and you would like us to proceed, please sign and return the enclosed copy within thirty days. Should you have any questions or wish more time to consider our proposal, please let me know.

Very truly yours,



Lauren S. Ward

LSW/ck

Approved for
ARTHUR D. LITTLE, INC.

By *Gene Lundkohn*
Authorized Contracting Officer

Accepted for
OFFICE OF THE GOVERNOR

By _____

Title _____

Date _____

APPROXIMATE DESCRIPTION OF REGIONS TO BE ANALYZED

The regions we initially intend to analyze are those outlined in the Application from the State of Alaska for Saltonstall-Kennedy funds and are, approximately, the following:

Region 1 - Extends south of an imaginary east-west line connecting Chirikof Island and the East Coast of the Alaska Peninsula, and includes, therefore, the Aleutian chain.

Region 2 - Extends North from the Northern boundary of Region 1 to an imaginary East-West line connecting Afoghak Island and the East Coast of the Alaska Peninsula, and includes, therefore, Kodiak Island and its surrounding area.

Region 3 - Extends North from the Northern boundary of Region 2 to the Alaska mainland, and includes, therefore, Cook Inlet, and East to an imaginary North-South line beginning just West of Cape Yakataga.

Region 4 - Extends East and South from the Eastern boundary of Region 3 along the Southeastern Coast and adjacent islands to an imaginary Northeast-Southwest line extending from Windham on the mainland and crossing Baranof Island.

Region 5 - Extends Southeast from the Southern boundary of Region 4 throughout the remainder of Southeastern Alaska, including, therefore, Petersburg, Ketchikan, Prince of Wales Island and the surrounding area.

Regions 4 and 5 will be combined for our analysis and an additional region will be added which will cover Bristol Bay and the Bering Sea area.

