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fish farming

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SURPLUS SALMON WARNING

A NEW estimate of farmed Atlantic salmon production and demand comes from the Fish Sea Fisheries Board (BSF).

In a research study of international production and market trends, it finds that the market is expected to grow to 153,000 metric tons by 1990 — with Norway providing 100,000 tons, Scotland 25,000 tons and Ireland 10,000 tons.

For Ireland alone, this could mean net earnings of IR£2 million, exports of IR£4 million and 1,200 jobs.

According to the report of this study, Europe's total demand maximum of farmed salmon production is around 250,000 to 300,000 tons. Norway, says the report, can produce 260,000 tons a year, Scotland up to 40,000 tons and Ireland up to 15,000 tons.

Production may exceed demand by 23,000 tons

Atlantic salmon farming has also been greatly assisted by recent major developments in feed compounding, and stock improvement programmes have been underway for some time.

But, with the prospect of rapidly increasing supplies, there will be a need for more stringent guidelines on marketing with a view to ensuring that the difference between success and failure.

With the growth in production, falling sea prices and trends for fish and fish products are already evident in most European and North American countries. If continued, they should induce greater consumption of fish, proving a source of added health value, and add to its acceptability.

demand by 1990 could cause reductions in prices and margins greater than farmers and traders presently envisage.

Lower margins will force the least efficient producers out of the industry and will deter potential small-scale newcomers.

The emphasis on greater efficiency will stimulate high standards of technology and training, and a larger minimum volume production unit.

Salmon farms based on integrated stock and sea cage production are unlikely to be less than 500 tons a year capacity, notes the BSF report.

Investment needed for

ditions) would reduce this return to zero.

● We shall be looking at this BSF report and its conclusions in more detail in our January 1987 issue.

FROM THE CLEARANCE OF IRELAND



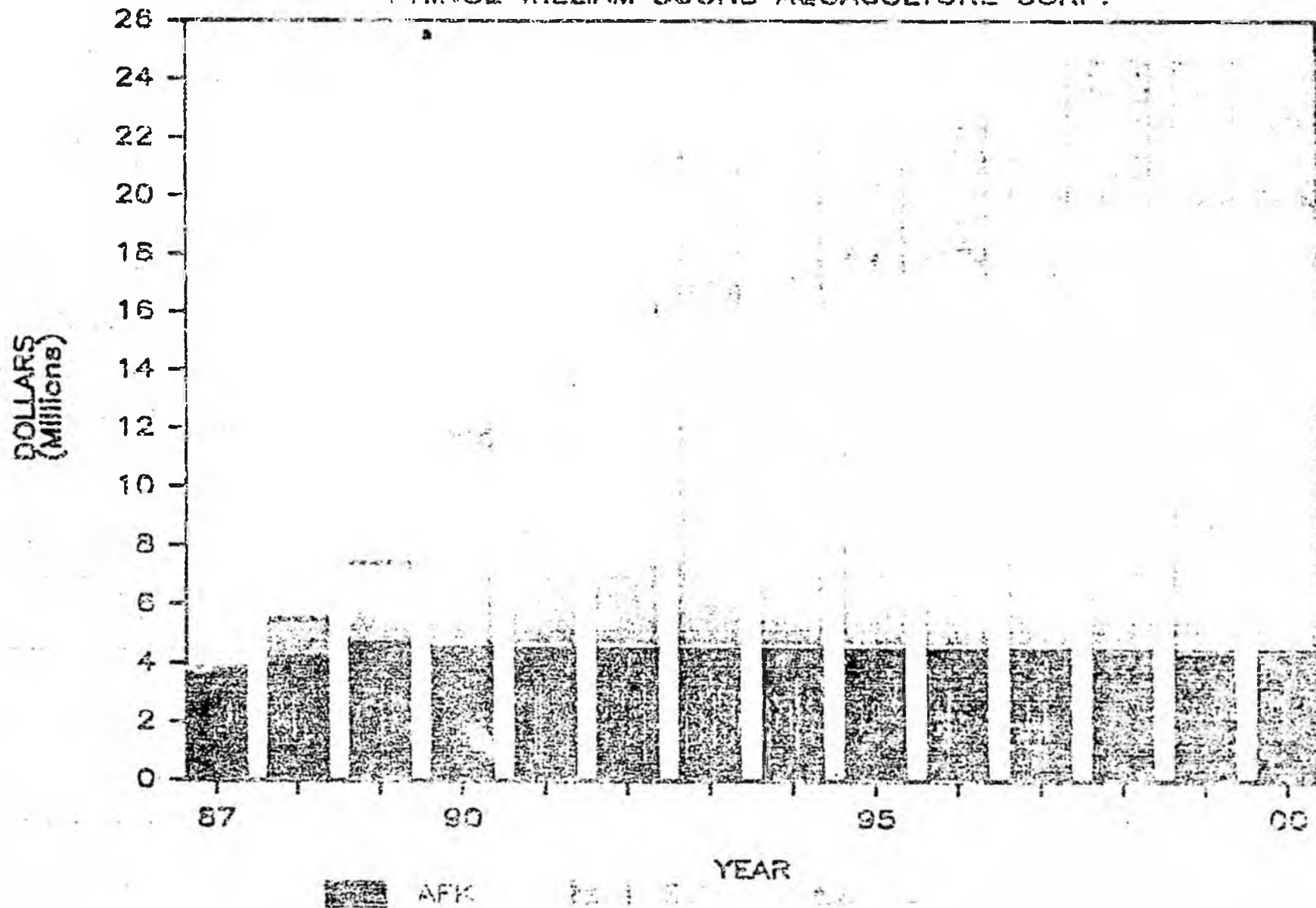
A NEW colour brochure in English says that the salmon's natural habitat location for developing Irish salmon by the Irish Sea Fisheries Board notes that the first crop of farmed salmon harvested in 1977. Production is projected to reach 100,000 tons in 1990.

Bridgestone "Hi-Seas" Fish



TOTAL COMMERCIAL FISHING REVENUE

PRINCE WILLIAM SOUND AQUACULTURE CORP.



PRINCE WILLIAM SOUND SALMON HATCHERY PRODUCTION

HATCHERIES	1988 BROOD YEAR EGG NUMBER (millions)					FINAL EGG CAPACITY (millions)				
	Pink	Chum	Coho	Chinook	Sockeye	Pink	Chum	Coho	Chinook	Sockeye
Armin F. Koernig	126	--	--	--	--	137	--	--	--	--
Bother Island	76	40	1.0	0.12	0.9	211	11	1	4.0	30.0
Solomon Gulch	64	4	1.3	--	--	136	18	1	.3	--
Main Bay	3	85	--	--	--	25	100	--	--	--
Cannery Creek	39	--	--	--	--	111	--	--	--	--
Gulkana Springs	--	--	--	--	30.0	--	--	--	--	30.0
TOTAL	310	129	2.3	0.12	30.9	620	242	2	4.3	60.0

ARMIN F. KOERNIG HATCHERY
 PRINCE WILLIAM SOUND, ALASKA
 PINK SALMON PRODUCTION DATA

BROOD YEAR	FRY RELEASE	FISHERY HARVEST	HARVEST RATE	BROOD STOCK	HATCHERY HARVEST	TOTAL RETURN	TOTAL MARINE SURVIVAL
1975	1,000,000	4,000	10%	15,155	24,845	44,000	1.4%
1976	11,010,577	--	--	40,432	114,188	154,620	1.4%
1977	16,950,784	275,000	50%	54,207	223,748	552,955	3.3%
1978	22,774,739	1,038,700	70%	108,061	346,728	1,493,433	6.6%
1979	21,500,000	1,358,907	60%	193,901	707,037	2,264,845	10.5%
1980	69,737,000	3,615,035	70%	164,545	1,354,732	5,134,363	7.4%
1981	70,118,000	2,890,225	80%	124,278	607,999	3,722,502	5.3%
1982	87,384,533	2,226,423	80%	186,431	387,146	2,800,000	3.2%
1983	76,746,000	3,772,962	75%	271,513	986,141	5,030,616	6.6%
1984	103,531,000	3,872,222	78%	277,706	814,072	4,964,000	4.8%
1985	112,527,515	--	--	--	--	--	--

SALMON FARMING POSITION PAPER

EXECUTIVE BOARD OF DIRECTORS
PRINCE WILLIAM SOUND AQUACULTURE CORPORATION
P. O. BOX 1110, CORDOVA, ALASKA 99574

Over the past twelve months the Executive Board of Directors of the Prince William Sound Aquaculture Corporation (PWSAC) had debated and discussed the pros and cons of establishing a salmon farming industry in Alaska. These discussions were prompted by the previous administration's apparent desire to explore the feasibility of developing the regulatory, administrative and legislative framework to implement a large scale salmon farming industry in Alaska. Considering the fact that legislation has been introduced to both the House and the Senate specifically for the purpose of legalizing the operation of salmon farms in Alaska, we feel that the time is appropriate to express our opinions and concerns to those individuals and agencies that will ultimately be responsible to formulate statewide policy on this issue. There are two major issues that we feel must be addressed and dealt with before the state takes any further steps towards legalizing the development of a salmon farming industry within state waters.

I. Long Term Social and Economic Impacts - Ocean Ranching vs. Salmon Farming

First of all, it is imperative that a long hard look be given to the relative benefit of ocean ranching vs. salmon farming in years to come. This should be done keeping in mind that success of an industry or undertaking be measured by the sum total of its contribution to the people, communities and industries of Alaska, both in terms of social and economic wealth.

The legislation that created both the private non profit hatchery program and the F.R.E.D. Division of AD&FG charged these programs with the responsibility of enhancing salmon runs statewide so that harvest levels in the common property fisheries would support and industry, meet the desires of sport fishermen, and satisfy the needs of subsistence fishermen. At first glance many people interpreted these programs as a "fish welfare subsidy" by which the state pays the bill and commercial, sport and subsistence fishermen thrive. In fact, after ten years of growing and developing, these programs are on the verge of becoming self-sustaining, cost efficient entities that will represent the backbone of Alaska's second largest industry.

The fishing industry is our largest employer and generates more dollars in ex-vessel value and final product marketing than any other industry in the state besides oil.

The ocean ranching programs in Alaska have undeniably stabilized salmon production in areas where unpredictable fluctuations in wild stock returns has kept the Alaska salmon industry from diversifying and growing due to the lack of a constant, ensured supply of product - a necessity in any resource related industry. Product diversification and progressive marketing strategies for pink and chum salmon have just begun to be explored. These avenues of development, aided by the consistent supply of wild and enhanced salmon we have realized in the early 1980's, have provided the salmon industry with its first long term, optimistic outlook in many years.

To try to express the value of Alaska's ocean ranching programs in terms of a cost benefit ratio is virtually impossible. The production of ocean ranched salmon provides fish to be harvested, jobs in the processing industry, product to be marketed and a consistent supply of product year to year. This assures lending institutions that investment in the industry is well-founded. As well as these direct benefits, there are the infinite number of multipliers of income generated to communities and support services throughout the state as the revenues associated with handling large volumes of salmon filter down.

This past year in Prince William Sound (PWS) the ADF&G estimated that 55% of the entire pink salmon harvest can be attributed to ocean-ranching production. The failure of wild stock returns to PWS was not predicted. Without the private non profit and F.R.E.D. Division enhancement programs, millions of dollars invested by fishermen and processors preparing for the coming season would have been lost. Raw fish tax revenues that supplement the city's operational and capital funding needs would have been greatly reduced. Ultimately the state would have had to deal with these losses in the form of subsidies or at least supplemental funding requests from the city. By 1992 PWSAC alone will generate better than \$20 million dollars in direct revenue to commercial fishermen. State investment and support of these programs to this point has been indispensable and demonstrates a great deal of foresight. To sell these programs short now would be a tragic mistake.

Specifically, it is the long term social and economic benefits that ocean ranching has provided that we feel are lacking within the proposed salmon farming industry. It is an undisputable fact that all ocean ranching production by the regional association and private non profit facilities is carried out on a zero budget level by the corporation involved. Incorporated under non-profit status as required by the enabling legislation and subsidized by commercial fishermen through a mandatory enhancement tax, the sole

purpose of this program is to produce fish for harvest in the common property fisheries. The only money retained by these corporations are used for operational funding and retirement of long term debt to the state's revolving hatchery loan fund.

In contrast, the salmon farming industry would operate as a strictly for-profit venture. According to the House Research Agency report "Aquaculture In Alaska" (H.R.A.-A.I.A.), most likely the major investment base in this industry would come from Scandinavian banks, similar to salmon farming development in British Columbia. Alaska has just begun to turn the tide of foreign investment in its fishing industry. If any one word stands out as a calling card to Alaska's fishing industry in the past five years, it is Americanization and what the implementation of the Magnuson Act has done toward that end. If the investment base in the salmon farming industry is for the most part other than domestic, it is safe to assume that the profits will be realized by other than domestic entities. If this is the case and it seems to be a worldwide trend in the salmon farming industry, why should Alaska invest it's resources (water and land) and it's money (resource agency monitoring and regulatory development) in salmon farming when it already has a program (ocean ranching) that it has funded that directly benefits its people and a thriving established industry.

Salmon farming is not a labor intensive undertaking. According to the House Research Agency Report Aquaculture In Alaska; Norway, the country that pioneered salmon farming directly employed only 2,000 individuals in 1984. This hardly represents an industry that could make a significant contribution to the job market in coastal Alaska. There are that many people employed directly by the salmon industry in the small town of Ccrdova in any given year.

The December 1986 issue of Fish Farming International reports in an article by the Irish Sea Fisheries Board (BIM):

"BIM's conclusion from this is that the imbalance of projected supply and demand by 1990 could cause reductions in prices and margins greater than farmers and traders presently envisage.

Lower margins will force the least efficient producers out of the industry and will deter potential small-scale new entrants.

The emphasis on greater efficiency will stimulate high standards of technology and training and a larger minimum-volume production unit.

Salmon farms based on integrated smolt and sea cage production are unlikely to be less than 500 tons a year capacity, notes the BIM report.

Investment needed for such a project would be around UK 22 million pounds and would be capable of earning 18 per cent internal rate of return.

But the investment is risky. A drop of ten per cent in real revenues through low prices would halve the rate of return. A stock loss say every five years (through disease or unusual weather conditions) would reduce this return to zero."

If this prediction by experts within the salmon farming industry proves true, it is clear that a developing industry in Alaska has little chance to establish a significant market share for a product that already shows signs of saturating the market for which it produces.

Further, the investment capital and the level of technology necessary to operate at the scale suggested in order to be competitive predicates an industry that holds very little hope for any vertical integration. This scenario is more likely to create high volume production salmon farms financed by large, multinational corporations that do nothing more than create a few local jobs and pass profits on to parent corporations.

Taking these facts into consideration is hard to visualize this state government, confronted with extremely limited funding for existing programs, creating an industry (salmon farming) that will require extensive agency monitoring and regulatory development, while offering negligible long term social or economic benefits to the State of Alaska.

II. Salmon Farming: Funding and Operational Considerations

The House Research Agency report Aquaculture In Alaska suggests in its section on options for financing of salmon farms that repayment of capital construction loans from the private non profit aquaculture corporations to the revolving hatchery loan fund could be used to fund the development of salmon farming. On page 21 of the report the author states "The cornerstone of Alaska's aquaculture industry is the State's system of public (F.R.E.D. Division) and private non

profit (PNP) salmon hatcheries which are designed to augment the state's natural runs. As enumerated in Chapter One, by almost any economic measure (i.e., employment, income, total economic activity), aquaculture is probably the best renewable resource investment the state has made with its oil wealth."

In the preceding paragraph the author speaks of the tremendous, wise investment the state has made in its ocean ranching program. Yet in the next chapter he suggests taking away the only available funding mechanism the PNP hatchery program has to continue investing in its own and the state's future.

This rationale remains a mystery to us. Perhaps the authors need to be reminded that large portions of those loan repayments are made with funds generated by commercial fishermen paying a mandatory enhancement tax. We suggest that if the House Research Agency had held public hearings as recommended by the Fisheries Mini Cabinet Aquaculture Advisory Committee, they would have been informed by the public that fishermen much prefer their enhancement tax funds be used to further the combined effort of the PNP program and the F.R.E.D. Division in traditional enhancement and ocean ranching endeavors rather than financing a fledgling salmon farming industry.

The Regional Planning Team concept, a combined effort of regional aquaculture corporations and the sport, commercial, subsistence and F.R.E.D. Divisions of ADF&G have produced Regional Salmon Plans throughout the state that define the enhancement needs of each individual region. These plans develop a list of priority projects that will help achieve the enhancement needs of their respective regions. The only mechanism for funding available to the private sector to achieve these goals is the revolving hatchery loan fund and it is imperative that it remains intact.

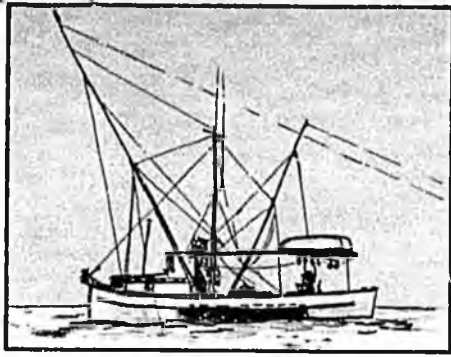
In the House Resource Agency report Aquaculture In Alaska the authors explain that if salmon farming were to become a reality both the genetics and disease control staff and lab facilities would need to be expanded. This represents only two of the many state programs in which both capital and operational funding would have to be expanded to support the salmon farming industry. From our point of view as a regional aquaculture association charged with responsible and beneficial enhancement development in PWS, this is where we find the greatest conflict between salmon farming and ocean ranching in Alaska.

Consider this fact: in 1987 the F.R.E.D. Division claims it will not operate its Cannery Creek hatchery in PWS. This facility cost the state \$4 million dollars in 1979. The hatchery can rear 111 million pink salmon eggs when filled to capacity. Because of a lack of \$180,000 in operational funding, the Cannery Creek facility will forego producing a return in 1989 of as many as 3.5 million adult pink salmon. It is very unlikely that there is any other situation in which the state could invest \$180,000 and produce direct revenues of \$3.5 million dollars, not to mention associated revenue to local communities through raw fish tax funds, local work force in the processing and shipping industry and support services region-wide that generate their income as large volumes of salmon are harvested in the region.

We are in a time that the state isn't even able to fund ongoing projects that for a relatively small investment can potentially produce significant economic gain. It seems irrational for the state to even consider the development of a new venture (salmon farming) that will not only require considerable state support but further, is most likely not even comparable to existing established programs in terms of its potential long term benefits.

In conclusion, we thank you for taking the time to consider our point of view on these issues. Most importantly, we hope you have gained a better understanding of how crucial the continued funding and development of our aquaculture programs are to Alaska's future.

Matthew Luck, on behalf of the
Executive Board of Directors
Prince William Sound
Aquaculture Corporation
February 24, 1987



Alaska Trollers Association

FEB 25 1987

REPRESENTING ALASKA POWER TROLLERS

130 Seward St., No. 213
Juneau, Alaska 99801
(907) 586-9400

TESTIMONY OF THE ALASKA TROLLERS ASSOCIATION

RE HB-108 AND SB-106:

"An Act relating to aquatic farming; and providing for an
effective date."

2/16/87

Earl E. Krygier
Executive Director

EXECUTIVE SUMMARY

The Alaska Trollers Association believes that passage of HB-108 and SB-106, "Act(s) relating to aquatic farming...", in their present form would be detrimental to the Alaska salmon industry and not in the best interest of the State. ATA generally supports of aquaculture, and believes there are many opportunities for Alaskans in various aquaculture developments. However, we specifically oppose those aspects of these companion measures aimed at permitting the pen rearing of salmon in Alaska.

Alaska produces some 43 percent of the world harvest of salmon. The pen rearing industry, spearheaded and dominated by foreign interests and backed by their governments' subsidy programs, is in direct competition with our salmon industry. This applies not just to king and coho salmon, but to all fresh and fresh-frozen product forms. Encouraging those interests to invest in and control pen rearing in Alaska is clearly not in the interest of our industry, and will jeopardize the enormous private and public investments already made in our wild and hatchery stocks. We cannot control the actions of other nations, but we need not actively contribute to the market competition facing our own industry.

We are also extremely concerned about possible biological impacts on our wild stocks. While the spread of an extremely virulent infection from penned to wild stocks may be of a low order of probability, the potential for major damage to wild stocks does exist. With so much at stake, is pen rearing worth the risk? Pen rearing will produce chronic habitat problems local to the rearing sites, will compete for release sites with our existing enhancement programs, and may physically displace existing fishery activity, as has been the case with log dumps.

Proponents assertions notwithstanding, pen rearing will divert increasingly scarce State government resources from existing fishery management programs. Fiscal impacts have not been addressed. ADF&G, DEC, DNR, DCED, and Revenue programs will be effected.

We contend that proponents are exaggerating the potential economic benefits of salmon farming in Alaska. Without the strict controls, which are not contemplated by these Bills, pen rearing operations will not be small, Alaska owned businesses. They will be large corporate operations, utilizing foreign technology, and funded and controlled by foreign interests. The few Alaskan jobs they will provide will be at the lower end of the technical and pay scales of these operations. To the extent that Alaskans are involved, either as investors in foreign dominated ventures or as independents, their position will be precarious. This industry is headed for a major "shake out" worldwide, and small, late entrants will be the most vulnerable.

In sum, salmon pen rearing threatens our existing industry and will not be the bonanza that proponents claim. Alaska's support for aquaculture should be in those areas where we can become the technological and market leaders. Let's not get on a bandwagon which is about to run out of gas!

- saturation in the price and quality leading sectors of our markets which will eventually impact the price of all Alaska salmon, not just our "top of the line" fish;
- negative biological impacts on our vital wild stocks and rearing habitat; and
- diversion of increasingly scarce State government fiscal and managerial resources toward management of a new industrial sector dominated by foreign capital and operators, to the detriment of our Alaskan industry.

Additionally, we contend that the developmental and employment benefits of salmon pen rearing to rural communities and to the economy of the State in general are being heavily, even irresponsibly oversold by pen rearing advocates.

MARKET CONSIDERATIONS

The advocates of aquaculture claim that consumption is rising and that there will be no competition between the farmed and the commercial forms of seafood. The reality is, that the bulk of the highly touted "world increase" in seafood consumption will occur in shellfish, and cod and catfish type fish rather than in the more expensive salmon species. This projected increased in world consumption has two main components.

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

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Proponents assertions notwithstanding, pen rearing will divert increasingly scarce State government resources from existing fishery management programs. Fiscal impacts have not been addressed. ADF&G, DEC, DNR, DCED, and Revenue programs will be effected.

We contend that proponents are exaggerating the potential economic benefits of salmon farming in Alaska. Without the strict controls, which are not contemplated by these Bills, pen rearing operations will not be small, Alaska owned businesses. They will be large corporate operations, utilizing foreign technology, and funded and controlled by foreign interests. The few Alaskan jobs they will provide will be at the lower end of the technical and pay scales of these operations. To the extent that Alaskans are involved, either as investors in foreign dominated ventures or as independents, their position will be precarious. This industry is headed for a major "shake out" worldwide, and small, late entrants will be the most vulnerable.

In sum, salmon pen rearing threatens our existing industry and will not be the bonanza that proponents claim. Alaska's support for aquaculture should be in those areas where we can become the technological and market leaders. Let's not get on a bandwagon which is about to run out of gas!

INTRODUCTION

Proponents of aquaculture say it offers one of the single greatest new opportunities to develop and diversify State and local economies and create new jobs. To hear them talk, you'd think that salmon pen rearing in particular is "the greatest thing since sliced bread." Frankly, your fishermen constituents disagree. They think pen rearing of salmon could well be a disaster for them and a very bad deal for the State of Alaska generally.

It is important to look beyond the enthusiastic statements of proponents about the "great opportunity" represented by aquaculture. We must also look at its' effects on the entire spectrum of the existing seafood and support industries. The past administration's Ad Hoc Committee on Mariculture, including the representatives of the fishing industry, found that aquaculture in general does offer new opportunities - though not without costs. Indeed they found that some forms of aquaculture - pen rearing of salmon to be specific - could, in fact, have detrimental effects on the fishing industry, particularly in Southeast fishing communities.

We, the fishing community, suggest that pen-rearing of salmon - the "fish farming" which is really the key element driving this Bill - poses three principal threats to Alaska fisherman:

- saturation in the price and quality leading sectors of our markets which will eventually impact the price of all Alaska salmon, not just our "top of the line" fish;

- negative biological impacts on our vital wild stocks and rearing habitat; and

- diversion of increasingly scarce State government fiscal and managerial resources toward management of a new industrial sector dominated by foreign capital and operators, to the detriment of our Alaskan industry.

Additionally, we contend that the developmental and employment benefits of salmon pen rearing to rural communities and to the economy of the State in general are being heavily, even irresponsibly oversold by pen rearing advocates.

MARKET CONSIDERATIONS

The advocates of aquaculture claim that consumption is rising and that there will be no competition between the farmed and the commercial forms of seafood. The reality is, that the bulk of the highly touted "world increase" in seafood consumption will occur in shellfish, and cod and catfish type fish rather than in the more expensive salmon species. This projected increased in world consumption has two main components.

(1.) Fish as a Cheap Source of Protein: Aquaculture in Third World countries has increased exponentially during the past few years - mostly in the form of warm water pond culture of tilapia and carp. Such culture in Third World nations is often run in conjunction with annual irrigation of rice fields, or in areas where the yield of protein per acre is grossly in favor of pond culture (fish such as Grass Carp or other herbivorous species for local consumption, or shellfish for export) where lands have a low plant productivity due to bad soil conditions. In the industrialized countries cheap protein is also important, but here consumption increases are largely in the form of "fast-food" fillets for fish sandwiches and deep fried catfish. Indeed, the largest aquaculture sector in the U.S. is Mississippi Valley catfish farming, and the single largest fish processor in the U.S. is a catfish processing plant.

(2.) The Health Benefits of Seafood: In North America and Western Europe, the increased recognition of the health benefits of seafood mostly spawned by the educational efforts of such institutions as the Heart Association and the National Marine Fishery Service, has led to a greater consumption of fish and shellfish. Consumers who increased their consumption for health reasons, are normally more interested in the expensive product forms, such as fresh or frozen salmon.

Unfortunately for Alaskan fisherman, the increased awareness and consumption occurred coincidentally with the advent of the Norwegian pen reared salmon industry - though not because of it, as some would claim. Through aggressive marketing and government subsidized production and shipping (including heavily underwritten air freight rates on the government owned airline SAS) the Norwegians made heavy inroads in this product niche of the seafood industry. Our Alaskan commercial fisherman, unprotected from this heavily subsidized, government organized marketing blitz into their traditional markets, have not enjoyed the benefits of increased demand through higher prices or expansion of market opportunities for our other salmon species, such as frozen reds and ocean bright pinks. So, Norwegian salmon has not just hurt trollers, it has limited diversification opportunities for gillnet and seine caught fish as well.

There is really only one market for quality salmon. This market is worldwide and must absorb all inventory, both fresh and fresh-frozen. As fresh-farmed salmon output increases, it cuts into the commercial high quality fresh-frozen market where Alaskan fish has been traditionally been dominant. Present worldwide production of wild salmon is 600,000 to 700,000 metric tons, the vast majority of which is pink, chum and sockeye salmon. Only 70,000 to 80,000 metric tons are high quality coho and king salmon, and it is these fish which are facing competition from pen-reared salmon. This competition is increasing yearly. The production of pen-reared salmon worldwide is expected to approach

150,000 metric tons by 1990. Such an increase will nearly triple the present volume of high quality salmon. In the world market, Western Europe, Canada, and the United States represent "the marketplace" for high-quality salmon. The troll industry's fresh and fresh-frozen product has already felt the impact of market competition from pen reared fish. Our king salmon price to fisherman has dropped from \$2.50/ lb in 1985 to \$1.80/lb in 1986. Cohos dropped .50 cents /lb this past winter when a large inventory of Norwegian fish was dumped on the French market.

Demand for this high quality fish just can't expand as fast as the supply is growing. Studies indicate that every man, woman and child in the United States would need to exchange a meat dinner for a salmon dinner to increase consumption by 25,000 metric tons per year. If pen-reared salmon production does reach 150,000 metric tons by 1990, then a population the size of the United States would have to eat six salmon dinners per year that they are not presently consuming. This is a product which retails for \$6.00 to \$8.00 a lb. Any economist will tell you that it is unreasonable to expect such a demand increase to occur in such a short time. It also means that the enormous amount of high quality salmon on the market will have to sell at reduced prices to compete within its own market niche, with other seafood, and with a more competitive red meat and poultry industry.

This problem was headlined in the December 1986 edition of FISH FARMING INTERNATIONAL which read, "SURPLUS SALMON WARNING - PRODUCTION MAY EXCEED DEMAND BY 23,000 TONS". The article stated that an imbalance of projected supply and demand by 1990 (three years from now) could cause sharp price reductions and upset profit margins. It stated that lower margins would force the least efficient producers out of the industry and preclude small-scale new entrants. It went on to say that farms which produce less than 500 tons per year (this latter type of large facility has a cost of US\$3 million +) would not have the product volume capacity to reach profit margins. They state that such large investment would be very risky, since a stock loss every five years through disease or the effects of unseasonable weather would yield zero net returns. Such losses are not without precedent. Salmon farmers in Norway, on the Sunshine coast of B.C., and at the National Marine Fisheries Service experimental farm at Little Port Walter in Southeast Alaska, have experienced such losses from algal blooms, stress induced by harassment from marine mammals, and from disease.

Commercial fisherman, as users of a wild, common property resource have been striving for years to stabilize natural fluctuations through hatchery enhancement and resource allocation. Pacific coast fisherman, in trying to solve those problems via the U.S./Canada Treaty, will face not only an increase in production from salmon farms, but the need to market the expected great increases in wild and ocean released hatchery

stocks resulting from the U.S./Canada Treaty. Canada and the Pacific States plan to release 2.6 billion enhancement salmon by 1990 - an increase of 245 percent! Add to this the increases from natural stocks rebuilding to maximum sustainable yield. This represents a tremendous investment in management and enhancement dollars, and tremendous sacrifices by our fishermen to achieve wild stock rebuilding. Pen reared salmon compete with these fish and dilute the value of our already massive investment.

It is also frequently asserted that penned salmon won't compete with Alaskan wild stock salmon since most of our production occurs during the summer, whereas penned salmon are sold in the winter. In fact, 10% of all pen reared salmon is sold in the summer. As long as penned salmon production was low, its summer market impact was not too severe. The total Alaska troll king and coho salmon production was about 9,700 MT in 1985. If full projected pen reared salmon production of 150,000 MT is reached by 1990, then a 10% summer market competition will be 15,000 MT in the summer of 1990. That is, they will dump more fresh fish in the summer market alone than the entire Alaskan troll production. As we have said, Alaskans in general will lose from this competition since the development of new product forms of pink/chum/and sockeye, ie. fresh frozen ocean bright quality, will be out-competed by the fresh farmed fish industry which has already developed its market strategy. But, the hardest hit will be the troll fleet. Our product, both fresh and fresh-frozen, competes head to head with pen reared salmon.

Since the volume of pen reared salmon projected by 1990 will triple the product volume available from the current harvest of all king and coho salmon (the two species which compete most directly with pen reared salmon), the issue of product saturation is both real and imminent. Whether or not Alaska becomes involved in the pen rearing of salmon will not change the fact that our wild stock fishing industry will see an increased market competition with pen reared fish, but we don't have to contribute to the problem.

I've spoken about world market impacts and their effects on Alaska fishermen, but if we allowed pen rearing in Alaska we would also have to deal with direct competition in our local markets. Most pen raised fish would be marketed in the winter when local fishermen are supplying local winter markets and getting their best price. When there is such high winter unemployment, winter fishing is both good for mental health and for the pocketbooks. Local pen-reared fish would severely hurt our local winter markets since buyers would not need to wait - as they're presently accustomed to doing - for a winter storm to pass so that local boats can "sneak back out" for a bit of winter fishing.

BIOLOGICAL CONCERNS

Additionally, salmon farming poses threats to our native stocks and our rearing habitat in Southeast. The rapidly growing aquaculture industry faces two big environmental problems; self-inflicted water pollution around the fish farms, and disease epidemics in the pens.

The problem of pollution from feces and unconsumed feed poses a real habitat problem. Most of the choice sites for aquaculture are important as nursery areas for other juvenile fish and shellfish. The problem of bottom habitat degradation is exemplified by the history of log storage facilities. The scientific literature is full of descriptions of the harmful effects to critical environments from hydrogen sulfide pollution - the same pollutant by-product associated with salmon farms.

As for disease, in 1983 epidemics cost the farmed salmon industry approximately \$110 million. Much of this occurred when a bacterial disease in Norway forced 29 out of 40 farms to slaughter their entire stock. Fish farmers, and feed lot farmers in general, respond to diseases with antibiotics which can lead to new virulent forms of disease. Virulency can take the shape of drug resistant disease strains or as new forms of disease to which natural stocks have little or no immunity. The major countries producing farmed salmon have either destroyed their

natural runs or never had them, so they have no natural stocks at risk. However, Alaska produces 90% of all U.S. landings, which equates to 43% of the world landings, from wild, natural runs of salmon. Can we really afford to risk a major disease induced crash of our wild stocks? We think not! Proponents of pen rearing would like to "wish away" the disease problem, but its not a simple thing to deal with and the risks are potentially catastrophic.

MANAGEMENT AND FISCAL CONCERNS

Pen rearing advocates are fond of stating that they aren't seeking State loans and hence won't have a fiscal impact on State government. This is a ruse. Loans aren't the only way of impacting the budget. With revenues getting tighter and tighter State resource managers are faced with doing more and more with less and less. Introducing pen rearing will have an impact on departments charged with regulating the seafood industry and managing the State's tideland resources. DNR, DEC, Revenue and ADF&G will all have to gear up to deal with permitting, regulating and otherwise managing this new industry. You tell me what it will cost! The only certain thing is that it won't be cheap, and that it will negatively impact already shrinking management efforts applied to our existing fisheries.

I think it would be very wise to have a detailed examination of the fiscal impacts of this legislation before proceeding further.

We have previously mentioned the U.S./Canada Treaty. Two additional programs were sold by the State of Alaska to the fishing fleet which promised a long term future and stability, Limited Entry and Salmon Enhancement. Though these programs hold promise, they have put the troll fleet in a precarious make-it or break-it balance. The farming of salmon can upset this balance. It is important to remember that Limited Entry was instituted to control excess effort and give assurances to fisherman that a reasonable livelihood could be obtained. The State also invested heavily in this process by making State loans available and by instituting additional programs which would benefit limited Entry participants and the seafood industry. Such basic assurances encouraged many Alaskans to invest their lives and wealth in this newly stabilized industry. If the State now decides to allow pen rearing of salmon, which competes directly with Limited Entry fisherman, it will have broken its trust with the existing industry. Additionally, salmon enhancement was conceived and developed in Alaska through a legislative process, the main intent of which was to exclude "private-for-profit" salmon farming or ranching. The Alaska Legislature understood at that time the social and economic implications of private salmon culture on a healthy commercial fishing industry. Those legislators understood that salmon culture was capital intensive and would likely be dominated by out-of-State extractive investment unless regulated to ensure that control and benefits remained in Alaska.

OVERSELLING THE ECONOMIC BENEFITS OF SALMON PEN REARING

Proponents of pen rearing salmon like to claim that they will be able to produce 1,900 jobs. Just how many of these will be held by Alaskans? A recent T.V. documentary promoting the salmon farming industry made a sad, unintended joke of this claim, stating that on the large fish farms on the Sunshine Coast in British Columbia you need to speak Norwegian to get by. We strongly contend that this new industry will not create 1,900 new jobs. On the contrary, it may well displace that many and more existing jobs in the seafood industry and its' supporting industries (shipwrights, fuel and food suppliers, etc.).

The Southeast troll fishery has the highest residency rate of any fishery in the state. Fully 85 percent of our fishermen live here in Alaska. Last year this represented nearly 3,500 fisherman and crew members. Using a standard 2.2 employment multiplier for Southeast indicates that the troll fishery alone may generate a total employment of 7,700 fishing, processing and support industry jobs, all of which are in some degree of jeopardy from pen rearing. Many trollers are barely making it now. Further, price slumps will place even more fishermen in the marginal category, forcing many to seek scarce winter employment on shore, and others to quit entirely. To the extent that Alaska based pen rearing hurts Alaskan fishermen, and it will, we are talking about displacing existing investment with new investment and new

people. As residents of Alaska, we want to see more jobs and more economic stability in our communities for the people that live here now. The following analogy exemplifies our dilemma. The Chamber of Commerce is always a strong local proponent of development. That is, until a Fred Meyers, Safeway, or McDonalds' wants to come to town. We all know that this is because the Chamber is made up of locally-owned small restaurant, grocery and shop owners who want some development, but not "that kind" of development. They know from painful experience that such new development often simply displaces existing industry owned and run by local people. That is the threat our fishermen - your neighbors - see and feel.

Pen-rearing is the latest economic "buzz word". Its logical conclusion is market saturation and an economic shake-out. Alaska's late leap onto the bandwagon - which will run out of gas about the time our production reaches market size - means more economic instability in communities which have suffered enough from the boom/bust economy which has characterized Alaska. The hype over salmon farms reminds me of a similar, though not so global, "new opportunity" in the early 1970's. Remember "worm farms"? Sportsfishermen surely wanted worms and the worm casts made a wonderful plant mix. The only problem was market saturation. Toward the end of that little boom, the only real money in worms was in selling the technology and equipment to "new farmers"! Isn't it interesting that Norway has curtailed developing new salmon farms, but is very hot on exporting its

technology, fry and pens to "new farmers" worldwide? They see the shake-out coming. We'd best have our eyes open too! This isn't just my opinion and advice, as I'm repeating sentiments which are increasingly being expressed in the international aquaculture industry press, most notably FISH FARMING INTERNATIONAL.

Salmon farming is capital intensive rather than labor intensive. Multi-national companies and foreign banks will put up the bulk of the start up dollars, and they will expect the earnings to flow back to them, as do out-of-State companies such as Fred Meyers or Safeway. Those profits won't be retained in the local community. Multi-national corporations are known to come in for the quick initial profits and sell out or just quit business for tax losses which offset other corporate gains. This is not just hype.

Certainly, wise foreign investment in Alaska is needed. We need the inflow of capital. However, such investment should be in the form of joint ventures with Alaskans, not just a license to steal from our resource base. Unfortunately, this bill does not address the issue of controlling the form and rate of growth of this proposed new industry to ensure that Alaskans are the primary beneficiaries (nor has the Alaska Mariculture Association put forth any proposals in this regard). Because of the start-up and operating costs involved, "Ma & Pa" type Alaskan operations will have a difficult time even "getting their foot in the door", and it is even more doubtful that any who did get started could stay

afloat if hit with a disease outbreak or a down turn in the market which all experts project within the next 3-5 years. Advocates of pen rearing like to sell the idyllic view of rural coastal Alaska sprinkled with hundreds of small scale, family run salmon farming operations. We see pictures of the old world charm of Norway with a neat, trim little salmon farm in the foreground. What you, as Legislators, aren't being told is that the Norwegians were only able to accomplish that through strict controls on the size of farms, establishment of quasi-public marketing agencies to ensure sales stability and fair treatment of individual small producers, absolute limits on the total number of entrants, etc. - in sum, strong central control over the magnitude, location and conduct of development. Nobody is even talking about those kinds of controls here. So, what will our development really look like?. Odds are it will take the form of large corporate farms with minimal labor inputs. Wherever possible these will be located outside existing cities or villages to avoid local taxes. Managerial personnel will be largely non-Alaskan. This is hardly a view to gladden the hearts of those who see salmon farming as a means to alleviate rural poverty in Alaska, but it is accurate. Just look at what has happened in B.C.

It would be interesting to know if Sealaska, one of the main promoters of this new industry, plans to invest it's own capital, or is it looking for foreign investment capital?

SUMMARY

It's true that many of the aforementioned impacts will occur whether or not Alaska allows the farming of salmon. We can do little more than prepare for the glut of high priced fish by assuring our quality standards and strongly promoting the market virtues of "Wild Alaskan Fresh And Fresh-Frozen Salmon."

The only real justification for permitting the pen rearing of salmon in Alaska is to produce benefits for residents of the State. We need to know in what manner and under what conditions pen rearing of salmon can produce benefits to Alaskans which outweigh the social and economic costs of introducing the new industry. The only answer which make sense to us, is one which compliments the existing industry rather than bringing in new people to compete with the existing seafood industry. Unfortunately, the advocates of pen rearing have not provided us with such a solution, and failing that, we don't see any good reason why the State of Alaska should actively contribute to aggravating difficulties for its own industry by permitting and promoting pen rearing of salmon here.

If entrepreneurs want to develop new aquaculture opportunities which do not negatively impact our existing industrial base, that's great. Indeed, we think there are many opportunities for Alaska to get ahead of the competition in new aquaculture technologies. There is already interesting work going on with scallops and oysters, and there is available technology for

lobster culture which might well be adaptable to high value Alaska crab species. These, and a host of other opportunities are what you should be encouraging. However, we ask you to say no to pen rearing of salmon, and urge you to beware of placing the State in a position of having to cope with the economic instability of a new industry which is nearing a major shake-out worldwide.

I would like to close my testimony with these thoughts from an article in the January, 1987 issue (pg. 5) of SEAFOOD INTERNATIONAL headlined "Salmon Prices Fall As Supply Forecasts Rise":

"Salmon prices are falling, and the Irish Sea Fisheries Board (BIM) is predicting they will continue to do so over the next five years. BIM commissioned a study to examine the potential supply and demand situation for farmed Atlantic salmon in the next decade, and the effects of increased production levels on prices. Using information based on the Norwegian, Scottish and Irish salmon farming industries, BIM concludes that adherence to strict quality standards and efficiency in production, marketing and distribution will become of crucial importance; but prices will still fall. (S)ome experts were forecasting...salmon prices...on a par with cod. The last two months of 1986 certainly saw a drop in price levels (in Europe). In the USA plentiful supplies also pushed prices down, and this is expected to continue. Meanwhile,

in all countries, production forecasts are up for this year. Future emphasis is likely to be on frozen fillets, portions, blocks and prepared items, with merchandising aimed at convincing the consumer that each country's salmon is the best."

Alaska Mariculture Association

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Mariculture Development and Alaska Processors

Alaska has some of the world's largest seafood processing capacities, but most of these plants remain idle or under-utilized for much of the year. Mariculture offers the opportunity to utilize these plants on a year-round basis, lowering overhead costs, providing more stable work forces and allowing Alaska companies to be more competitive in markets seeking continual supplies of fresh seafood.

Cultivation of shellfish--oysters, mussels, scallops--offer the opportunity for Alaska processors to diversify product lines, while salmon farming can provide a flow of fresh product during the off-season for commercial fishing. The year-round nature of mariculture also will help improve transportation services and lower the cost of moving product to the marketplace.

Mariculture also will provide a good market for fish food made from the waste generated at processing plants.

The complementary nature of mariculture to commercial seafood production is apparent in British Columbia where processors report an increasing flow of farmed salmon into existing processing facilities. A recent report prepared for the B.C. government said the B.C. Fisheries Council which represent major fish processors in the province "reported that a trend was beginning whereby many processing companies were joint venturing with fish farms to market their product, thereby using the excess capacity of existing plants. Government sources indicated that over 50 percent of farm salmon had recently been contracted for processing by the major unionized companies."

A recent article in the magazine Canadian Aquaculture points to a growing interest among processors in fish farming. "I think salmon farming could be the biggest thing in the seafood industry," said Harry Guenther of J.S. McMillan Fisheries. Guenther said the company plans to develop hatcheries to supply salmon farms, pick up grown fish from the farm sites, and provide processing and marketing services.

"Right now we all have underutilized production capacity," Guenther said. "Fish farming means these assets can be operated 12 months a year."

(over)

B.C. Packers, the largest processor in the province, also is processing and marketing farmed salmon. Explains company officer Vance Lipovsky: "B.C. Packers is in the business of selling fish. It's not important whether it comes off a boat or from a farm as long as it's of high quality."

Another example of the compatibility of fish farming and seafood processing comes from the east coast of Canada where Connors Brothers Limited has expanded into salmon farming. "We've taken an idle fish plant and turned it into a hatchery and feed plant," said a Connor Brothers spokesman. "Aquaculture allows us to keep employees we might otherwise have to lay off and provides additional employment opportunities as well."

The Prince Rupert Fishermen's Cooperative, B.C.'s second largest processing company, provides a clear example of the opportunities for both processors and fishermen. The House Research Agency reports that groups of six to eight fishermen are forming partnerships with local entrepreneurs to finance and operate salmon farms. Cooperative members have 10-20 farms under development. The coop operates hatcheries and a feed mill to service farms of members and to sell surplus production to others. The cooperative processes and markets the wild and farmed production of its members. These fishermen also are experimenting with oyster and mussel farming.

In explaining his support for mariculture development, one Southeast Alaska processor recently told the Alaska Mariculture Association that he wants to operate his plant, retain his local work force and supply customers seeking fresh fish on a year-round basis. Despite his efforts to buy all the troll salmon available during the winter fishery, he was able to purchase only 500 pounds of product the previous week. Naturally, the workers were sent home, the plant sat idle and the customers bought fish elsewhere.

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 17, 1987

SUBJECT: CS HB 108 (L & C)
TO: Rep. Dave Donley
FROM: Ed Hein, LAA *EA*

Enclosed is the draft CS you requested on aquatic farming. Apparently in order to operate or construct an aquatic farm or related hatchery, a tidelands site-use permit is required from DNR. In my opinion, the legislature may constitutionally limit permits for the use of state land as an aquatic farm to residents and corporations licensed to do business in the state. Because of the time constraints, I have not been able to research this question more thoroughly. *EA*

Alaska Mariculture Association

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Costs of Entering Salmon Farming vs. Fishing

One of the issues raised during discussions of mariculture development is the high cost of entering salmon farming. The Alaska Mariculture Association (AMA) believes the costs of establishing a salmon farm are comparable to many fishing operations in Alaska.

An economic feasibility study of salmon farming prepared for an Alaska corporation estimated the initial capital and operating costs of establishing a small (110,000 pounds annual production) at \$243,000. The study estimated the initial cost of a larger farm (440,000) at \$896,000.

According to the fisheries consulting firm of Garner and Williams, following are typical initial costs of entering the Bristol Bay salmon fishery, including the purchase of a new vessel and permit.

Estimated Costs of Entering the Bristol Bay Drift Salmon Fishery

Vessel, electronics, gear	\$120,000-200,000
Permit	130,000
Insurance (4% of vessel cost)	4,800-8,000
Groceries	2,000
Fuel	2,000
Transportation/miscellaneous	5,000
TOTAL	<u>\$263,800-347,000</u>

The cost of entering the Bristol Bay salmon fishery should be considered a mid-range fishing investment. The following examples of capital costs taken from the classified ads show a wider range on entry costs. The vessel costs are for used boats.

Vessel/Gear/Permit Costs for Some Alaska Fisheries

Power troller (44' wooden) with permit	\$87,000
Prince William Sound gillnet (28') w/permit	110,000
Cook Inlet salmon seine (36' fiberglass) w/permit	157,500
Steel seine vessel w/SE salmon permit	289,500
w/SE salmon & herring permits	589,500
w/False Pass salmon permit	500,000
AK Peninsula drift/longline (46') w/salmon permit	550,000
66' steel crabber/longliner w/refrigeration	350,000
53' steel seiner/crabber	400,000
108' steel joint venture dragger	1,950,000

STATE OF ALASKA THE LEGISLATURE

POUCHY - STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 16, 1987

SUBJECT: Sectional analysis of HB 108, relating to aquatic farming

TO: Representative Johnny Ellis

FROM: Edward H. Hein *EH*
Legislative Counsel

Section 1 is a statement of legislative findings and policy, specifying the benefits to the state that aquatic farming could provide and expressing a state policy of encouraging the development of aquatic farming.

Sec. 2 establishes a new chapter, AS 08.06, in the businesses and professions title of the Alaska Statutes. AS 08.06.010(a) prohibits the construction or operation of an aquatic farm, or a hatchery to supply an aquatic farm, without a permit from the commissioner of commerce and economic development. Subsection (b) states what activities are authorized under a permit. Subsection (c) allows the commissioner to attach conditions to a permit in order to protect public health and natural aquatic animals and plants. At page 2, line 11, "natural" should be changed to "wild".

AS 08.06.020(a) provides for permit applications forms. Subsection (b) requires a permit application to include permit fees and a report of a health inspection conducted by the Department of Fish and Game within 30 days before filing the application.

AS 08.06.030(a) requires that a person have an acquisition permit from the Department of Fish and Game in order to acquire wild aquatic plants or animals to supply an aquatic farm. Subsection (b) states that an acquisition permit authorizes only those stock specified in a permit. Subsection (c) requires the commissioner of fish and game to specify the expiration date of permits and allows the commissioner to attach conditions to the permit. A harvest

Representative Johnny Ellis
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under an acquisition permit is exempt from limitations applicable to sport, commercial, or subsistence harvests. Subsection (d) directs the commissioner of fish and game to send a copy of each acquisition permit application to the commissioner of commerce and economic development. Subsection (e) authorizes the commissioner of fish and game to deny or restrict an acquisition permit to protect the sustained-yield management of a species. There must be a factual basis for the denial or restriction. If impairment to sustained-yield management could not have been foreseen and avoided, the commissioner must explain why in the decision. Subsection (f) states four alternative conditions under any one of which the commissioner of fish and game must issue an acquisition permit. Subsection (g) states that plants and animals acquired under a permit become property of the permit holder. Subsection (h) directs the commissioner of fish and game to make stock available for aquatic farming purposes.

AS 08.06.040 prohibits the importation into the state of aquatic plants or animals to supply an aquatic farm or hatchery without authorization from the commissioner of fish and game or under a Board of Fisheries regulation. I would recommend that on page 4, line 13, after "hatchery" the phrase "required to have a permit under AS 08.06.010," be inserted, so that it is clear that this section does not apply to all hatcheries.

AS 08.06.050(a) provides that a private hatchery required to have a permit under AS 08.06 may sell or transfer stock only to an aquatic farm or hatchery that has a permit under AS 08.06. Subsection (b) requires that the commissioner of commerce and economic development be notified at least 30 days before stock is transferred to or from an aquatic farm or hatchery. Subsection (c) requires that the notice required under (b) include a stock health inspection report. Subsection (d) allows the Department of Fish and Game to restrict or disapprove a transfer under certain conditions. Subsection (e) prohibits transfers, sales, and purchases of Alaska aquatic farm products unless the products were produced under a permit. References in this section to "this chapter" should be changed to read "AS 08.06.010"; these appear at page 4, lines 17, 19, and 21, and at page 5, line 10.

AS 08.06.060 prohibit the release of trout or salmon from an aquatic farm or hatchery into state water, unless authorized by the Department of Fish and Game.

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AS 08.06.070(a) allows the Department of Fish and Game to order the quarantine or destruction and disposal of diseased hatchery stock or aquatic farm products in order to protect wild stock. Permit holders are required to report disease among their stock or aquatic farm products to the department. Subsection (b) requires permit holders to allow the Department of Fish and Game to inspect the farms and hatcheries during operating hours with reasonable notice. Subsection (c) requires the department to develop a disease management and control program. Subsection (d) allows the department to contract for the performance of its duties under (b) and (c).

AS 08.06.080 authorizes the commissioner of commerce and economic development to adopt regulations necessary for AS 08.06.

AS 08.06.090 makes violation of AS 08.06 or regulations adopted under it a class B misdemeanor.

AS 08.06.900 defines terms for AS 08.06.

Sec. 3 requires the commissioner of natural resources to monitor aquatic farms and hatcheries that hold permits under AS 08.06.010 for the presence of paralytic shellfish poisoning.

Sec. 4 makes the centralized licensing provisions of AS 08.01 in the Department of Commerce and Economic Development applicable to aquatic farms and hatcheries under AS 08.06.

Sec. 5 prohibits the Board of Fisheries from adopting regulations or taking action regarding aquatic farm or hatchery permits under AS 08.06, or to a harvest under an acquisition permit.

Secs. 6, 7, and 10 delete provisions relating to fish farming from AS 16.05 in order to conform to provisions of sec. 2.

Sec. 8 inserts cross-references to AS 08.06, necessitated by sec. 2.

Sec. 9 exempts aquatic farming from the licensing requirements in AS 16.05 for sport fishing, hunting, and commercial fishing and vessels.

Representative Johnny Ellis

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Sec. 11 exempts purchases and sales of aquatic farm products from the requirements of AS 16.10.265 - 16.10.267, relating to commercial fish purchases and possession of limited entry permits.

Sec. 12 provides for the inclusion of aquatic farmers in regional aquaculture associations.

Sec. 13 makes provisions related to salmon hatchery permits inapplicable to hatcheries holding a permit under AS 08.06.-010.

Sec. 14 makes an exception to restrictions on the resale or transfer of salmon eggs or fry by a salmon hatchery. The exception would allow resale or transfer to a hatchery or aquatic farm holding a permit under AS 08.06.010. This section also requires that surplus eggs from salmon returning to a hatchery be made available to hatcheries supplying aquatic farms.

Sec. 15 provides that requirements relating to funds derived by a hatchery from the sale of salmon eggs to a hatchery that supplies aquatic farms must be expended in the same manner as provided for funds from sales of eggs to other hatcheries.

Sec. 16 makes the provisions of AS 16.43, relating to limited entry, inapplicable to activities authorized under an aquatic farm permit.

Sec. 17 exempts aquatic farm products from the provisions of AS 16.51, which relate to the Alaska Seafood Marketing Institute.

Sec. 18 provides an immediate effective date for the bill.

EHH:mi
wkmi1/047

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: HB 108/SB 106
Publish Date: 2/4/87

Revision Date: N/A
Title: Aquatic Farming: Mariculture

Agency Affected: Commerce & Econ. Dev.
BRU: Economic Development Advocates

Sponsor: Rep. Ellis/Senator Zharoff
Requestor: _____

Components: Office of Commercial Fisheries Development

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	15.0	5.5	6.0	6.6	7.3	8.0
TRAVEL	10.0	5.5	6.1	6.7	7.3	8.1
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	25.0	11.0	12.1	13.3	14.6	16.1

CAPITAL						
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REVENUE	5.0	10.0	15.0	20.0	25.0	30.0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	25.0	11.0	12.1	13.3	14.6	16.1
FEDERAL FUNDS						
OTHER						
TOTAL	25.0	11.0	12.1	13.3	14.6	16.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This program will become a priority mission of OCFD and shall be assigned to existing personnel. Initial permit requests are not expected to exceed 80% of one Development Specialist II available time. Travel is programmed for site visits as envisioned by the bill and contractual includes phone, photocopy and

Prepared by: W.G. Paulick Phone: 465-2162
Division: Office of Commercial Fisheries Development Date: 2/17/87

Approved by Commissioner: Anthony Smith Date: 2/17/87
Agency: Department of Commerce and Economic Development

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

1987 LEGISLATIVE SESSION
FISCAL NOTE

HB 108/SB 106

Analysis: (Continued)

other expenses related to permitting as required by the bill. FY 87 includes funding for public hearings, etc., to finalize new regulations. Program receipts have been estimated by using a fee of \$100 per annual permit; 50 new permits per year.

fish farming

INTERNATIONAL

MONTHLY £1.50

1986 → DECEMBER

SURPLUS SALMON WARNING

A NEW estimate of farmed Atlantic salmon production and demand comes from the Irish Sea Fisheries Board (BIM).

In a research study of international production and market trends, it finds that the market is expected to grow to 153,000 metric tons by 1990 — with Norway providing 100,000 tons, Scotland 25,000 tons and Ireland 10,000 tons.

For Ireland alone, this could mean farm earnings of IRE32 million, exports of IRE44 million and 1200 jobs.

According to the report of this study, Europe's technical maximum of farmed salmon production is around 250,000 to 300,000 tons. Norway, says the report, can produce 200,000 tons a year, Scotland up to 30,000 tons and Ireland up to 15,000 tons.

The market will determine the limits to output. But other constraints will include lack of suitable sites for sea cages.

Ireland is already facing this problem, notes BIM. But Bridgestone cages have been used in exposed sea conditions with encouraging results.

Production may exceed demand by 23,000 tons

Atlantic salmon farming has also been greatly assisted by recent major developments in feed compounding; and stock improvement programmes have been underway for some time.

But, with the prospect of rapidly increasing supplies, there will be a need for increasing emphasis on marketing with effective performance making the difference between success and failure.

With the growth in production, falling real price trends for fish and frozen salmon are already evident in most European and North American countries. If continued, they should induce greater consumption. And growing awareness of salmon's health value will add to its marketability.

However, total world demand for Atlantic salmon by 1990, after considering present trends in individual markets, "is likely to be only 130,000 tons, which is 23,000 tons less than forecast production".

BIM's conclusion from this is that the imbalance of projected supply and

demand by 1990 could cause reductions in prices and margins greater than farmers and traders presently envisage.

Lower margins will force the least efficient producers out of the industry and will deter potential small-scale new entrants.

The emphasis on greater efficiency will stimulate high standards of technology and training, and a larger minimum-volume production unit.

Salmon farms based on integrated smolt and sea cage production are unlikely to be less than 500 tons a year capacity, notes the BIM report.

Investment needed for such a project would be around UK£22 million and would be capable of earning 18 per cent internal rate of return.

But the investment is risky. A drop of ten per cent in real revenues through low prices would halve the rate of return. A stock loss say every five years (through disease or unusual weather con-

ditions) would reduce this return to zero.

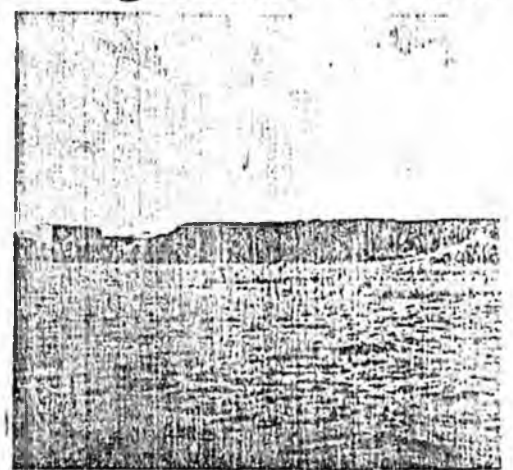
● We shall be looking at this BIM report and its conclusions in more detail in our January 1987 issue.

FROM THE



A NEW colour brochure says that the salmon location for development by the Irish Sea Fisheries Board notes that the first harvest in 1977. P tons in 1990.

Bridgestone "Hi-Sea"



One of four Bridgestone Fish Cages

Since the introduction of the first Bridgestone Cage succeeding 18 months have seen the sale of a further 18 items World-wide. Thirteen times larger than a typical new contracts are repeat orders from existing customers. Exceptionally severe weather conditions in Ireland demonstrated without reservation the unequalled durability of Bridgestone Warranty.

TUESDAY, FEBRUARY 17, 1987

GOOD AFTERNOON. TODAY WE ARE GOING TO TAKE UP HB 70, RELATING TO THE STATE MEDICAL BOARD AND HB 108, RELATING TO AQUATIC FARMING.

HB 70 IS DESIGNED TO HELP THE STATE MEDICAL BOARD PURSUE INVESTIGATIONS OF MEDICAL MALPRACTICE COMPLAINTS. IT WAS REQUESTED BY THE MEDICAL BOARD AND IS ENDORSED BY THE CITIZENS COALITION FOR TORT REFORM.

REPRESENTATIVE SUND, THE PRIME SPONSOR, IS AVAILABLE IF THE COMMITTEE HAS QUESTIONS TO DIRECT TO HIM. OTHERWISE WE HAVE BECKY BEAR FROM DCED, KATHY MARSHAL FROM THE DIVISION OF OCCUPATIONAL LICENSING, AND DR. CONLEY, CHAIR OF THE STATE MEDICAL BOARD.

DR. CONLEY, WOULD YOU PLEASE COME TO THE WITNESS TABLE AND IDENTIFY YOURSELF FOR THE RECORD.

* * * * *

WE WILL NOW TAKE UP HB 108, AN ACT RELATING TO AQUATIC FARMING. BEFORE WE BEGIN TESTIMONY TODAY, I'D LIKE TO LAY A FEW GROUND RULES.

INITIATING A MARICULTURE INDUSTRY IN ALASKA IS AN EXTREMELY COMPLEX ISSUE. THE MOST DIFFICULT AND COMBERSOME OF THESE ISSUES WILL BE DEALT WITH IN THE RESOURCES COMMITTEE, THE NEXT COMMITTEE OF REFERAL.

FOR OUR PURPOSES TODAY, I WILL LIMIT TESTIMONY SOLELY TO LABOR AND COMMERCE ISSUES. THIS MEANS THAT WE WILL NOT HEAR ABOUT ANAROBIC CONDITIONS, STATE PERMITTING PROCESS, AND HOPEFULLY NOONE WILL FEEL OBLIGATED TO MENTION THE WORD "FISH".

CONSIDERING THE NUMBER OF WITNESSES WE HAVE ON THIS MEASURE, I WILL LIMIT TESTIMONY TO THREE MINUTES PER PERSON. I RESERVE THE RIGHT TO STOP THE TESTIMONY IF YOU VENTURE INTO ISSUES BETTER HANDLED IN THE NEXT COMMITTEE OF REFERRAL.

WE HAVE REPRESENTATIVES FROM THE AGENCIES AFFECTED BY THIS BILL AVAILABLE IF ANY COMMITTEE MEMBERS HAVE QUESTIONS FOR THEM.

THERE IS A PROPOSED COMMITTEE SUBSTITUTE ON HB 108 BEFORE YOU. MY STAFF HAS HIGHLIGHTED LANGUAGE ADDED TO THE CS. I WILL BRIEFLY RUN DOWN THOSE CHANGES FOR THE BENEFIT OF COMMITTEE MEMBERS AND WITNESSES.

only if we get the bill
DRAFT intime.

THERE ARE THREE SECTIONS ADDED TO THE FINDINGS AND POLICY SECTION BEGINNING ON PAGE ONE;

"DEVELOPMENT OF MARICULTURE IN ALASKA WOULD STRENGTHEN THE COMPETITIVENESS OF ALASKA SEAFOOD IN THE WORLD MARKET PLACE BY BROADENING THE DIVERSITY OF PRODUCTS AND PROVIDING YEAR-ROUND SUPPLIES OF PREMIUM QUALITY SEAFOOD."

"IT IS THE POLICY OF THE STATE THAT AQUATIC FARMING BE DEVELOPED IN A MANNER THAT ASSURES FULL PARTICIPATION AND FULL BENEFITS TO THE PEOPLE OF ALASKA."

"IT IS THE POLICY OF THE STATE THAT AQUATIC FARMING BE DEVELOPED IN A MANNER CONSISTENT WITH PROTECTION AND ENHANCEMENT OF TRADITIONAL HIGH VALUE INDUSTRIES AND WITH PROTECTION OF OUR NATURAL RESOURCES."

IN ADDITION; LANGUAGE HAS BEEN ADDED TO;

tideland

LIMIT OWNERSHIP OF LAND USE PERMITS FOR AQUACULTURE FACILITIES TO ALASKA RESIDENTS AND/OR ALASKA LICENSED BUSINESSES.

REQUIRING THE DCED COMMISSIONER TO MAKE AN ANNUAL REPORT TO THE LEGISLATURE ABOUT THE PROGRESS OF THE MARICULTURE INDUSTRY INCLUDING ITS IMPACT, IF ANY, ON TRADITIONAL FISHERIES AND RECOMMENDATIONS FOR ANY STATUTORY CHANGES THAT MAY BE NEEDED.

REQUIRING THE DCED COMMISSIONER TO PROMULGATE REGULATIONS NECESSARY TO ASSURE THAT A MARICULTURE INDUSTRY IS DEVELOPED IN A MANNER CONSISTANT WITH THE POLICIES AND FINDING OUTLINED ON PAGE ONE.

* * * * *

WE WILL BEGIN TESTIMONY ON HB 108 BY HEARING FIRST FROM THE PRIME SPONSOR, REPRESENTATIVE ELLIS.

Due to time constraints, this language is not yet in the CS. The committee will have to adopt this language "in concept" for inclusion in final CS.

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version : SB 106/HB 108
Publish Date : 2/4/87

REQUEST: _____

Revision Date: _____
Title : _____

Agency Affected : ADF&G
BRU : FRED

Sponsor : Zharoff et al, Ellis et al,
Requestor : _____

Components : FRED

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES		157	157	183	236	330
TRAVEL		6	6	10	17	20
CONTRACTUAL		1	1	2	1	8
SUPPLIES		2	4	6	10	22
EQUIPMENT				1	2	5
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		166	168	202	269	385
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		166	168	202	269	385
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME		2	2	3	3.5	9
PART-TIME		1	2	1	2	0
TEMPORARY		1	0	0	0	0

ANALYSIS : (Attach a separate page if necessary)

This analysis estimates costs of pathology services and permitting based on 100 permit applications in FY 88, ultimately resulting in 20 operational fish farms by FY 92 of economically significant size.

(see attached for additional comments)

Prepared by : Dr. Mike Kail Phone : 465-4160
Division : ADF&G/FRED Date : _____

Approved by Commissioner : *Thomas* Date : 2-2-87
Agency : _____

Distribution (by preparer) :

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agencies
- Senate Secretary

Estimated cost of services to be provided by ADF&G are fish pathology services, permit processing and technical oversight.

For pathology services, estimated costs are based on current workload and budget for the section at this time, to arrive at a per-unit cost (e.g. \$600,000/37 hatcheries = \$16,000/hatchery). An additional \$12,000 is budgeted for investigations and diagnostic services in the first year. Types of services are: diagnostic, broodstock, water source analysis, shellfish certification, pre-release inspection, and human health concerns.

For permitting and technical oversight services, an assessment of work requirements was made by calling the Marine Resources Division of the B.C. provincial government. For the first three years, two full-time technicians would be required. Thereafter, manpower needs will diminish. The types of work to be undertaken will be communication with applicants, review of application materials, coordination with programs such as coastal zone consistency review, and technical biology and fish culture oversight.

It is very difficult to anticipate what will happen if a mariculture program is enabled in Alaska. We have prepared this note based on observations and consultations with managers of similar programs. We then applied this to Alaska, using the incomplete data at hand. These must be considered rough estimates of cost. As further information becomes available, the fiscal note could change. Also, as the bill becomes modified as it passes through the legislative process, there may be changes in the bill that will have corresponding changes in the fiscal note.

TESTIMONY ON AQUACULTURE
BY RICH DAVIS
HOUSE LABOR AND COMMERCE COMMITTEE
2/25/87

FEB 28 1987

I represent the deep concerns, and views of the individuals I have spoken with regarding fish farming in Alaska. Each of these people, some of them fishermen, some not, asked me to tell you of their opposition to fish farming in our State. They agree with your desire to promote mussel, shellfish, and aquatic plant farming. We see little chance of economic impact, and are all for it as long as no hazards are posed to our delicate coastal marine environment.

There is no blossom waiting to open the minute fish farming is turned loose in Alaska. If you lawmakers give this industry a green light, we can only guess at its chance of getting off the ground. Economic conditions are already stacking against fish farming in our State. You must consider: the cost of the fish, farming equipment, transportation cost, cost and availability of feed, Alaska's distance from the market, and the imminent overabundance of pen raised fish bound for market in 1990. No one can say the market will even accept the forecasted glut of pen raised fish headed toward the consumers. An overabundance of salmon spells lower prices for the entire salmon industry, fishermen included - don't forget this!

A flood of information is before you regarding fish farming. One piece states the the concerns of Alaska's commercial salmon fishermen "may be somewhat unwarranted"; there is no authority in this statement, only the author's opinion.

Some proponents of fish farming legislation have played down, and tried to cover up the imminent economic impact of farmed fish on our commercial salmon fisheries. They admit wild salmon prices could be affected by increased pen raised fish production. The salmon fishermen are sure that prices for their product will be reduced if fish farming is allowed and encouraged to take root here.

As elected Representatives, you have the responsibility to act on the concerns of the people you represent, not to make decisions that adversely impact them! If you encourage this new industry and it sinks, out the window goes money spent by our State for regulation, enforcement, licensing, and management - effort and lots of money that you lawmakers know we can't risk wasting.

This State spent years and millions of dollars building, managing, and promoting Alaska's wild, natural, and renewable salmon resource. Nearly 45,000 people worked in Alaska's \$414 million 1986 commercial salmon harvest. It's estimated better than half these people are Alaskan residents. Remember also their dependant families. You Legislators can't ignore the concerns and desires of that great segment of our population. If the fishermen of this State say they are facing crippling economic impact, then you had better do all you can to protect their industry.

There is a chance that our commercial salmon industry could be economically displaced with your vote on this legislation, and we're warning you not to take that risk. Don't take a gamble that may further reduce Alaska's struggling economy. You want no part in undermining our commercial salmon industry.

Stand up for Alaska's fishing industry! Prohibit fish farming until the predicted pen raised fish glut passes, and the economic and environmental consequences are facts, not suggestions and conjecture. You will be called dedicated leaders and be respected by us all.

A handwritten signature in cursive script, appearing to read "Richard J. Davis".

COMMERCIAL SALMON FISHERMAN



UNITED FISHERMEN OF ALASKA

Jack Cadigan
Executive Director
907-586-2820
1-800-478-FISH

Chad W. Grogan
re suggested
amendments

Mr. Chairman and Members of the Committee:

My name is Rob Blake and I am here to express some of the concerns the United Fishermen of Alaska and the Cordova District Fishermen United have with the CS for House Bill #108.

Our basic concerns are outlined in the United Fishermen of Alaska's Resolution 87-3, passed unanimously by the Board of Directors at their annual meeting the first week in February, which is:

Keeping in mind that Alaska has 90% of the U.S. salmon production and 43% of the world salmon production, excluding pen-reared salmon, you can understand our anxiety.

We raise the following issues:

1.
 - (a) Disease related problems have the potential of affecting existing stocks of wild salmon which are fully utilized by sport, commercial and subsistence users, or are needed for PNP brood stock or spawning escapement.
 - (b) Potential of polluting the quality environment needed for continued production of wild stocks of salmon, sea run trout and other aquatic plants and animals by use of antibiotics in treating pen-reared disease problems, surplus fish food damaging the bottom dwellers around net pens, restriction of water current movement because of net pen placement, human waste and garbage contamination, etc.
 - (c) Genetic alterations are a potential concern; after several cycles of altering and domesticating, pen-reared salmon, upon escaping, could in turn effect the gene pool of wild stock.
 - (d) What are the impacts of hormones, toxicants (ie. TBT) antibiotics, etc., on the natural environment, animals and the human food chain?
2. Where do the smolt or eggs come from to start up a Mariculture industry?
 - (a) Certainly not from imported stocks - the history of importing smolts is laden with disease problems.
 - (b) Wild chinook in Southeast is still in the build-up stage to help fulfill the U.S./Canada Treaty obligations.

Southeast hatcheries are not up to maximum capacities to meet that obligation either, and even if they are close, what about the ever increasing needs of the sportfish, commercial and subsistence common property users? Chinook and coho stocks in Southeast are fully utilized under the existing fisheries and industry. The same goes for Cook Inlet and Prince William Sound, any surplus spawning escapement is currently utilized by FRED and FNP hatcheries for supplementing existing user group fisheries. All the chinook and coho stocks West of Cook Inlet are also fully utilized by existing fisheries or escapement.

3. Funding problems that need to be addressed:

.F.R.E.D. Division of the Alaska Department of Fish & Game would be required to bear inspection costs. They would have to develop a disease control and management program and provide all types of associated services. Where's the funding for these additional costs going to come from? The F.R.E.D. Division is forced by the proposed FY88 budget to close down four State hatcheries and reduce its other programs, all of which are valuable to existing users.

.D.E.C. will have to be involved with all the environmental research and monitoring. While that agency's budget isn't proposed to be cut this year, they simply don't have enough funding to monitor existing problems (even the Alyeska Pipeline Terminal).

.D.N.R. is way behind on existing work loads of permitting, land use planning, etc. That agency's budget is being cut even further.

.D.C.E.B. is set up in this legislation to be a lead-type agency. They are taking a 26% budget cut, I believe, for FY88.

None of the agencies involved are able to carry out their current legislative mandates and program needs for their existing respective user groups. Shouldn't their budgets be brought up to levels to meet the current needs of existing industries and user groups before the Legislature imposes more changes on them? I can appreciate the Legislature's desire to enhance the State's economy, but not at the expense of reducing the economic potential of existing industries.

4. Physical displacement of traditional users: Commercial fishermen fear disruption from traditional fishing grounds and anchorages, as well as the hazard to navigation salmon farms will pose. We have to assume that sport fishermen, recreational boaters and tourists will feel the same way. Waterfront property values could also diminish, depending on the siting of such farms. Tourism is a blooming industry in this State. People come to Alaska to find esthetic values, to photograph pristine environment, and to have the ultimate experience sportfishing and hunting, not to see salmon farms scattered all up and down the coast in all the favorite fishing spots and anchorages.

5. The PNP and State hatchery program has been stated as the best renewable resource investment the State has made with oil dollars. It's a shame that the State did not make more money available for this venture during times of plenty, because the program collectively has not come close to achieving its potential throughout the State. Our hatchery system supplements the wild stock resource for the common property fishery. Every person in this State has access to the hatchery-produced fish if they so desire, via commercial, sport or subsistence fishing. This venture in hatchery production has created many more jobs for State residents and helped maintain the economic viability of the commercial and sport fishing fleets in much of the State. In Prince William Sound, for instance, the commercial fishermen opted to increase the salmon resource rather than eliminate many of the fishing permits. We have done this through ocean ranching and it works. Our Prince William Sound hatcheries are also producing chinook and coho for sport fishermen and tourists. If the State is ever again going to invest in the salmon industry, it should invest in the proven commodity, and not in potential disaster. The existing industry provides many, many thousands of jobs.

6. Funding: As stated earlier, the State is not willing or able to fund the four agencies that will have to be involved with this Mariculture legislation to a level that will allow them to adequately manage their present obligations. This needs to be rectified first. Both the Enhancement and Commercial Fishing Loan programs have been mislabeled "revolving". The principle and the interest from both programs go directly into the General Fund upon repayment. Both loan funds are literally out of money unless the Legislature makes an appropriation to them. Some of the loans from these programs have been transferred to AIDA to help finance things like the Red Dog Mine. These loan repayments go directly to AIDA, not to the General Fund. It might be a consideration of this Committee to look into this "non-revolving" situation before there is no money left for reinvestment in the State's largest non-oil industry.

7. What are we trying to accomplish with pen-reared salmon? Are we trying to create a "cottage" industry, a "mom and pop" show up and down the coast, or are we trying to develop an environment for multi-national investors to exploit to the fullest by providing a few jobs and taking home the profits (if there are any) at the expense of several existing industries? If the State is desirous of maximum potential benefit to the State itself, or its residents, it will have to make a tremendous financial investment in order to pull it off. Norway had to do it because its rural coastal communities were drying up from lack of fisheries resources to sustain their economy. Norway also had very little natural "salmon" resource to worry about or consider affecting. Alaska's present economic situation and flourishing salmon stocks do not mandate such a move. Besides, it does not appear that the limited size structure restricted by Norway to accomplish their goal will be economically viable in Alaska. Without the money to do it in-State, the only logical option would be to allow outside investors to come in, bring their experts and equipment with them, and control an industry that will provide just a few local resident jobs while competing for General Fund dollars and services at our expense. In my "logical" scenario, it would be prudent for the State to carefully analyze the actual value gained for potential cost incurred. As commercial fishermen, we realize the market impact of pen-reared salmon on Alaska wild salmon. While we don't feel that pen-reared will ever really displace our harvests, we do already feel an impact and will continue to feel that impact with or without Alaska being involved. If this Committee is intent on pursuing SB105 in its present form, then it should consider including in the legislation a time frame during which pen-reared salmon could be sold in order to not directly compete for market space during the wild salmon seasons.

Other suggestions are:

Page 2, Line 20: Change <may> to "shall".

Page 3, Line 18: Change <may> to "shall".

Page 3, Line 29: Change <may> to "shall".

Page 4, Line 2: Delete <substantially>.

Page 4, Line 4: Delete <substantially>.

Page 4, Line 9: Change <shall> to "may".

Page 4, Lines 21 & 22: Delete both lines.

Page 4, Line 27: Include after Board of Fish, "except that no finfish or eggs may be imported into the State of Alaska for the purpose of supplying stock to an aquatic farm or hatchery."

Page 5, Line 13: Change <may> to "shall".

Page 6, Line 11: Delete <and upon reasonable notice>.

Page 8, Section 4, Lines 3 thru 10: We strongly recommend deletion of this Section and insert that the Board of Fisheries be involved with the permit process.

Page 11, Line 7: Change <must> to "shall".

As the U.F.A. and the C.D.F.U. support the careful and controlled development of shellfish and plant mariculture, and we are not desirous of slowing down the process by which the existing shellfish farmers can continue, or new farmers becoming involved, we suggest that this Committee split the two issues into two separate bills, thus allowing shellfish legislation to proceed with little or no resistance.

We appreciate the opportunity to speak on this issue during its last hearing and will be providing more information and comments in the future. Thank you.



UNITED FISHERMEN OF ALASKA

Jack Cadigan
Executive Director
907-586-2820
1-800-478-FISH

UNITED FISHERMEN OF ALASKA

RESOLUTION 87-3

WHEREAS in 1985 the United Fishermen of Alaska requested the State of Alaska to perform a thorough study of the biological, economic and sociological problems and potentials of salmon pen rearing in Alaska, but this study has not yet been undertaken; and

WHEREAS the UFA supports the careful and controlled development of shellfish and plant mariculture; and

WHEREAS the development of the salmon farming concept of mariculture will adversely affect the fishermen and the most successful hatchery and enhancement program in North America by: (1) reallocating State funds and services; (2) competing with markets for wild salmon; (3) preventing water and land use of traditional fishing, hatchery, enhancement, and smolt rearing and release sites; (4) increasing the potential disease contamination of the wild stock; and

WHEREAS no realistic fiscal note has been produced to identify the cost to the state incurred by the management of the proposed activities;

NOW THEREFORE BE IT RESOLVED that the Board of Directors of the United Fishermen of Alaska urges the State of Alaska to take no action on legislation and development of salmon farming mariculture until such time as the aforementioned issues of concern are addressed through private and public forums.

Robert M. Blake

Robert M. Blake
President

2/6/87

Date

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B

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HOUSE COMMITTEE REPORT

(7)

Date referred: 2/9/87

FURTHER REFERRALS: Finance

DATE: 3/17/87

The Labor & Commerce Committee has considered HB 112

"An Act relating to the servicing of certain residential housing mortgage loans purchased by the Alaska Housing Finance Corporation."

RECOMMENDS:

- replace with _____ the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

SIGNING OTHER RECOMMENDATIONS:

[Signature] NO REC

[Signature] NO REC

[Signature]

Chairman's signature



Official Business

Alaska State Legislature

House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members, House Labor and Commerce Committee
FROM: Rep. Randy Phillips *R.E.P.*
DATE: March 13, 1987
RE: HB 112

As you may be aware, there have been a number of difficulties experienced by Alaskans who have had their home mortgages sold to out of state mortgage companies. I have introduced HB 112 to provide some protection for the consumer. It is modelled after a recently adopted Minnesota law, which I have attached. The main features of the bill are:

- * Limited to AHFC mortgages
- * The selling lender shall notify the mortgagor of the sale no less than ten days after the actual transfer.
- * Notification must include the name, address and telephone number of the person who will assume responsibility for the servicing, and accept payments for the mortgage loan.
- * Notification must include a detailed written financial breakdown including, but not limited to, interest rate, payment amount and current escrow balance.
- * The purchasing lender shall respond within fifteen business days to written requests for information from a mortgagor. A written response must include the telephone number of a company representative who can assist the mortgagor.
- * Payments made from an escrow account for taxes and insurance must be made in a timely manner as they become due, provided there are sufficient funds for payment. If there is a shortage of funds the lender shall promptly notify the mortgagor.
- * If a lender fails to make payments, lender is liable for actual damages caused by the failure to make payments when

due, as well as a \$500 fine.

- * The lender is permitted to make payments on behalf of mortgagor, even if there are not sufficient funds in the escrow account.
- * If lender fails to comply with these requirements, the lender is liable to the mortgagor for \$500 per occurrence, in addition to actual damages caused by the violation.

I believe that HB 112 will help alleviate some of the problems which have been associated with the sale of Alaskan's mortgages to out of state mortgage firms.



*Effective
August 1, 1986*

MINNESOTA
Regular Session

Chapter 358, Laws 1986

House Bill No. 1984

AN ACT

1
2 relating to commerce; regulating securities;
3 regulating the assignment of certain real property
4 loans and the administration of certain escrow
5 accounts; providing certain exemptions; regulating
6 real estate brokers and salespersons; modifying
7 re-examination requirements; providing trust account
8 requirements for licensees acting as principals;
9 granting certain enforcement powers to the
10 commissioner; providing certain remedies; requiring
11 storage of abstracts of title within Minnesota;
12 amending Minnesota Statutes 1984, sections 47.20,
13 subdivision 9; 80A.14, subdivision 18; 80A.15,
14 subdivision 1; 82.17, subdivision 4; 82.22,
15 subdivisions 3, 6, and 13; 82.24, subdivision 2;
16 82.26; 82.27, subdivision 1; 82.33, subdivision 2;
17 386.375; and Minnesota Statutes 1985 Supplement,
18 sections 80A.13, subdivision 1; 80A.15, subdivision 2;
19 and 82.19, subdivision 3; proposing coding for new law
20 in Minnesota Statutes, chapter 47.

21
22 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

23 Section 1. [47.205] [ASSIGNMENT OF MORTGAGE; DUTIES;
24 PENALTIES.]

25 Subdivision 1. [DEFINITIONS.] For the purposes of this
26 section, the terms defined in this subdivision have the meanings
27 given them.

28 (a) "Lender" means all state banks and trust companies,
29 national banking associations, state and federally chartered
30 savings and loan associations, mortgage banks, mutual savings
31 banks, insurance companies, credit unions making a loan, or any
32 person making a conventional loan as defined under section
33 47.20, subdivision 2, clause (3) or cooperative apartment loan

1 as defined under section 47.20, subdivision 2, clause (4). A
2 selling lender" is a lender who sells, assigns, or transfers
3 the servicing of a loan, to a "purchasing lender or a servicing
4 agent."

5 (b) "Loan" means all loans and advances of credit
6 authorized under section 47.20, subdivision 1, clauses (1) to
7 (4) and conventional loans as defined under section 47.20,
8 subdivision 2, clause (3) or cooperative apartment loan as
9 defined under section 47.20, subdivision 2, clause (4).

10 (c) "Escrow account" means escrow, agency, or similar
11 account for the payment of taxes or insurance premiums with
12 respect to a mortgaged one-to-four family, owner occupied
13 residence located in this state.

14 (d) "Person" means an individual, corporation, business
15 trust, partnership or association, or any other legal entity.

16 Subd. 2. (ASSIGNMENT OR SALE OF MORTGAGE LOANS.) If the
17 servicing of mortgage loans financing one-to-four family owner
18 occupied residences located in this state is sold or assigned to
19 another person:

20 (1) the selling lender shall notify the mortgagor of the
21 sale no less than ten days after the actual date of transfer.
22 The notification must include the name, address, and telephone
23 number of the person who will assume responsibility for
24 servicing and accept payments for the mortgage loan and the
25 notification must also include a detailed written financial
26 breakdown, including but not limited to, interest rate, monthly
27 payment amount, and current escrow balance;

28 (2) the purchasing lender shall issue corrected coupon or
29 payment books, if used, and shall provide notification to the
30 mortgagor within 20 days after the first payment to the
31 purchasing lender is due, of the name, address, and telephone
32 number of the person from whom the mortgagor can receive
33 information regarding the servicing of the loan, and shall
34 inform the mortgagor of any changes made regarding the mortgage
35 escrow accounts or servicing requirements including, but not
36 limited to, interest rate, monthly payment amount, and current

1 escrow balance; and

2 (3) the purchasing lender shall respond within 15 business
3 days to a written request for information from a mortgagor. A
4 written response must include the telephone number of the
5 company representative who can assist the mortgagor.

6 Subd. 3. [ADMINISTRATION OF ESCROW ACCOUNTS.] Each lender
7 requiring funds of a mortgagor to be paid into an escrow account
8 for payment of taxes or insurance premiums with respect to a
9 mortgaged one-to-four family owner occupied residence located in
10 this state shall make payments for the taxes or insurance from
11 the escrow account in a timely manner as these obligations
12 become due provided that funds paid into the account by the
13 mortgagor are sufficient for the payment. If there is a
14 shortage of funds, the lender shall promptly notify the
15 mortgagor of the shortage. If the lender fails to make timely
16 payments, the lender is liable to the mortgagor for actual
17 damages caused by the failure to pay the amounts when due and is
18 subject to penalties provided in subdivision 4, except that the
19 lender may present any legal defense in any subsequent hearing.
20 The lender is permitted to make a payment on behalf of the
21 mortgagor even though there are not sufficient funds in a
22 particular account to cover the payment.

23 Subd. 4. [PENALTIES.] If a lender fails to comply with the
24 requirements of subdivisions 2 and 3, the lender is liable to
25 the mortgagor for \$500 per occurrence, in addition to actual
26 damages caused by the violation.

27 Sec. 2. Minnesota Statutes 1984, section 47.20,
28 subdivision 9, is amended to read:

29 Subd. 9. (1) For purposes of this subdivision the term
30 "mortgagee" shall mean all state banks and trust companies,
31 national banking associations, state and federally chartered
32 savings and loan associations, mortgage banks, mutual savings
33 banks, insurance companies, credit unions or assignees of the
34 above. Each mortgagee requiring funds of a mortgagor to be paid
35 into an escrow agency or similar account for the payment of
36 taxes or insurance premiums with respect to a mortgaged one to

Alaska borrowers fume as accounts peddled Outside

BY JIM ERICKSON

Daily News business reporter

Anchorage resident Leonard Hamilton said he doesn't anger easily, but he got "really frosted" when earlier this year the Outside company servicing his home loan lost his monthly mortgage payment.

"They assumed I didn't send it, and they did everything but accuse me of lying about it when I said I did," Hamilton said.

To make matters worse, Hamilton said he had to straighten out the mistake over long-distance telephone lines. The local bank that previously handled his home loan — a bank Hamilton said he chose for convenience — transferred his Alaska Housing Finance Corp. loan to Manufacturers Hanover Mortgage Corp. of Farmington Hills, Mich. That firm services more than 360,000 home loans, and is one of the largest mortgage companies in the world.

"What upsets me most is, this is an Alaska loan, but it's being serviced outside the state, by someone that I can't just go and see and resolve any issue I might have," Hamilton said.

Hamilton is one of hundreds of Alaska homeowners who have discovered to their surprise that the bank, savings and loan, credit union or mortgage company they select to close their home loan may not be the one that services it over the years. And his is one of a growing litany of complaints about the service some of the giant Outside companies provide.

In simpler times, homeowners borrowed money directly from a local bank or mortgage company. The mortgage stayed with the bank until it was paid off.

But due to changes in the financial services marketplace, lucrative home loan servicing portfolios now are freely traded among financial institutions nationwide.

What that means to borrowers is an institution far from home may be collecting the monthly mortgage checks and handling escrow accounts for taxes and insurance. Homeowners have no say whether their mortgage will be sold, or to whom. Borrowers like Hamilton say that, as a result, they can never be assured of the quality or convenience of service they will receive, no matter how

See Page H-4, SOLD OUT

Candidates have

Well, one election down and one to go. Then Alaska will have a new governor. Despite less money, both Steve Cowper and Arliss Sturgulewski upset the "known quantities" in the primary election — defeating an incumbent

SOLD OUT: Practice of selling loa

Continued from Page H-1

carefully they choose a local financial institution.

The practice has become widespread both inside and outside Alaska. As the practice has grown, it has touched off a controversy between homeowners who say they are entitled to a say in what happens to their mortgage and servicers who claim the right to sell mortgages at will.

At the end of 1983, about \$363 million in home loans funded by AHFC were serviced by Outside companies, about one out of 10 the agency's total loans.

By last July, the value of loans serviced Outside had increased to \$888 million of the agency's \$4.3 billion in loans. That's about one out of five. Manufacturers Hanover alone accounted for more than \$547 million in AHFC loans.

At least seven local lenders — Alaska Statebank, First Guaranty Mortgage Company of Alaska, Home Savings and Loan, Alaska Continental Bank, Security National Bank, City Mortgage Corp. and Alaska National Bank of the North — now have so-called "pass-through" agreements with Manufacturers Hanover. Until recently, AHFC loans closed by those institutions were transferred automatically out of state, although borrowers weren't necessarily told at closing that their loan would not be serviced by an Alaska firm.

"There's been a fundamental change in the business in the last three years," said Don Elliott, controller for the Alaska Housing Finance Corp.

The reason is simple. Large companies like Manufacturers Hanover can use computers and economies of scale to reap long-term profits from fees they are paid to service home loans, and they are willing to pay top dollar to local institutions that originate the mortgages.

Jim Crawford, president of Anchorage-based City Mortgage, said some companies will pay 700 percent of what a servicing portfolio would earn in a year for the right to take over those loans.

"And there's no overhead. I can't kick about that, and I don't see how you can compete with that kind of pricing" by keeping the loans.

City Mortgage, which Crawford describes as kind of a home loan supermarket, services some types of loans, and sells others, depending on what is most profitable for the company. He said his firm tells buyers the loan may be serviced elsewhere.

According to AHFC officials, many people are initially angry when they learn their mortgage has been sold without their consent, but they settle down if the Outside servicer does a good job.

Some people, however, have found dealing with a large, impersonal Outside company to be a frustrating and sometimes costly experience.

Gary Stiller was set to close on an assumable AHFC loan he had already qualified for through a local lender. But after moving into his new home, Manufacturers Hanover abruptly vetoed his application. Despite numerous frantic phone calls to the company's headquarters, Stiller said he could not get a satisfactory explanation of why he was turned down.

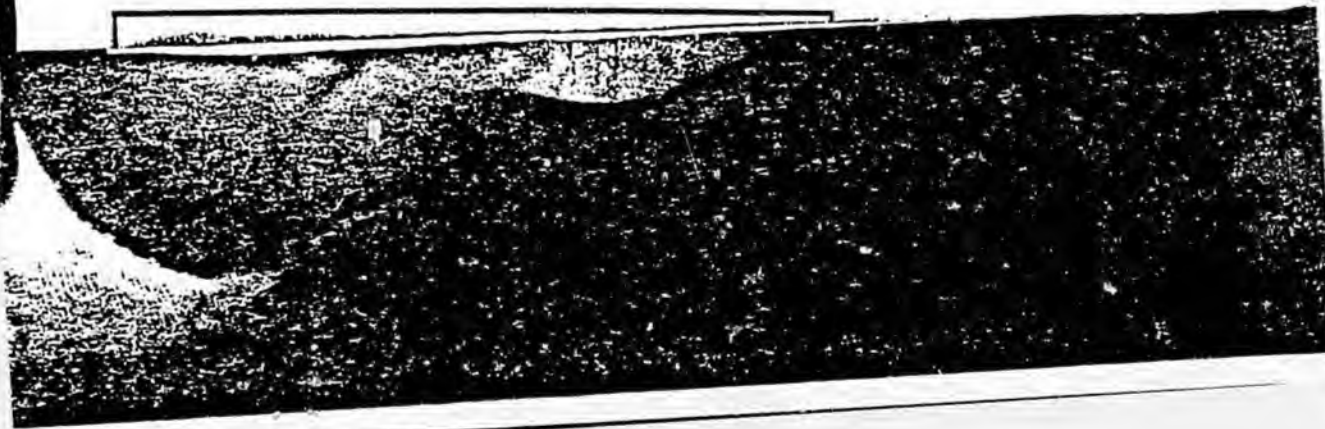
"I never could get the boss to call me back," he said. His loan was later approved by a local lender.

"What really upset us was, they demanded we send them \$700 and some dollars to get a credit check," Stiller said. Although he thought the price was way too high, Stiller said he sent them the money because he knew his credit was good and he was anxious to close on the house. After firing off some angry letters, Manufacturers Hanover refunded half of the money.

"I'll never have anything to do with them ever again," he said.

Another Anchorage resident, Don Seelinger, suffered a nightmare of foul-ups when Home Savings and Loan sold his mortgage to Manufacturers Hanover early this year.

The first problem cropped up when Seelinger sent off his March payment. Shortly afterward, Seelinger received urgent messages from two different departments at Manufacturers Hanover. One letter, dated March 10,



ns Outside steams Alaska borrowers

told him his check had been received, but the company didn't know what it was for. The other, dated March 13, notified Seelinger that his payment was overdue and his account was being assessed a \$61 late fee.

"I sent them a check, and they didn't even know what to do with it," he said. The problem went away — Seelinger doesn't know exactly how it was resolved — but not before Manufacturers Hanover sent him an ominous delinquent mortgage notice.

About two months later, Seelinger got another nonsensical letter from Manufacturers Hanover. This time, the company said Alaska Statebank had not provided any proof that Seelinger's home had the necessary property insurance when the loan was transferred. Seelinger's loan had been transferred from Home Savings and Loan, not Alaska Statebank.

"I finally said, the hell with them," Seelinger said. "I had to have (the insurance) when I bought the house, and payments for it are included in the house payment. I told them, 'you prove that I don't have it.'"

Instead, Seelinger said the company purchased a policy for him at a cost of more than \$1,000 annually, even though he already was covered by a policy costing \$320 annually. They sent him a bill, which he has never paid.

Representatives for Manufacturers Hanover said they resolved the problem when Seelinger furnished proof of insurance. They canceled the \$1,000 policy and stopped billing him.

But Seelinger isn't exactly satisfied.

"Had I had any indication this was going to happen to me I would have done things differently ... in the future, I have got to have the assurance (from the bank that closes the loan) that they won't transfer it out of the state of Alaska."

That assurance, except in rare cases, cannot be given, said Janet Frank, residential finance director for the Mortgage Bankers Association, a national industry group.

"The point is, these things are freely transferable, and they need to be for the good of the institution involved," Frank said. Banks, savings and loans and other lenders

have the right to sell servicing portfolios, she said, and must be able to do so if they need cash.

Ralph Miller, a Manufacturers Hanover senior vice president, acknowledged that his company sometimes bobbles transactions. He maintained his company's record is as good as any, and that in many cases the problems originate with the selling institution, not Manufacturers Hanover.

"When you look at the numbers we deal with, you have to recognize there are going to be some problems. You have to anticipate them and do what you can to fix them. I think we do a real good job in that respect."

AHFC doesn't have statistics to directly measure the performance of Outside vs. in-state loan servicers.

Elliott noted just because a company is located out of state doesn't mean it does a bad job handling local mortgages. For example, the delinquency rate for loans handled by Spokane Mortgage Co. is 6.26 percent, less than the overall average of all AHFC servicers of 9.92 percent. By comparison, the delinquency rate at Manufacturers Hanover is 13.19 percent, high enough to result in the suspension of the company from servicing any new AHFC loans until the rate is reduced.

The problem has placed AHFC in the position of trying to balance the needs of borrowers and lenders. AHFC can bounce from the program companies that do not provide an acceptable level of service, and the agency requires each Outside servicer to have an in-state representative. Disgruntled homeowners said local reps act as little more than mail drops and are ineffective in problem-solving.

But Lehr said the agency is hesitant to restrict the sale of AHFC loans Outside.

"I'm on the side of the borrowers," Lehr said. "But I have to think about the lending community, too." Because of the state's troubled economy, lenders may have cut back on personnel and can no longer handle servicing.

"Sometimes they need to sell off those things because they need the money pretty

See Page H-5. SOLD OUT

18.0	18.0
18.5	18.0

SOURCE: Census Bureau
© News America Syndicate, 1986

agriculture, services, foreign investment and protection against copyright and patent piracy.
Striking a tough bargain-

the staunchest supporter of a new round of talks to modernize the 40-year-old procedures of the General Agreement of Tariffs and Trade.

SOLD OUT: Outside banks buy up loans

Continued from Page H-4

badly," Lehr said.
In some parts of the country, the practice has produced more than grumbling.
An uproar from borrowers in Minnesota produced some legal protection for consumers. The Minnesota law does nothing to restrict sales. Mainly, it requires proper notification to borrowers when mortgages are sold, a service many institutions already provide. It also makes servicers pay \$500 penalties to borrowers if tax or insurance payments aren't made on time, or if the homeowner isn't notified.

State Rep. Randy Phillips, R-Eagle River, plans to introduce legislation next year that would go beyond the Minnesota law.

Phillips — whose own mortgage was sold to an Outside company about 18 months ago — said he wants to give consumers the right to keep their loan in Alaska. Legislation now being researched would require companies contemplating the sale of a mortgage loan portfolio to give each homeowner the option of pulling his mortgage from the package being sold.

And companies with pass-through agreements would be required to tell borrowers that their mortgage will be serviced elsewhere before the loan is closed.

"I know the banks will come unglued" if the legislation is introduced, Phillips said. "But they've got to have some social responsi-

bility."
"I think people should at least be given the option. I'm paying good money for a product, and I expect some company loyalty to me in exchange for my loyalty."

Frank of the Mortgage Bankers Association said any plan that allows individual homeowners to decide who services their mortgage is unrealistic, as are suggestions that individual borrowers can prevent a mortgage from being sold by demanding the lender sign a written guarantee at closing.

"These loans are sold in bulk, so (loan underwriters) are not going to be writing in little clauses that differentiate one loan from another," she said.

Crawford said the best borrowers can do is find out at closing if the company plans to service the mortgage. If not, the borrower can then decide whether to choose another loan program or another lender.

No company can guarantee that it will service the loan forever, he said.

"You may talk to banks, and they'll tell you they are always going to service it. But if their earnings go in the toilet, they'll sell it. I wouldn't believe anybody who said they won't sell their servicing."

Frank said she thinks the reservations of consumers will ease with time.

"The growth of the industry was a little faster than could be supported," she said. "It will take awhile to grow into it."

BRADNER: Two candidates' styles differ

Continued from Page H-1

itive, quick-on-the-trigger than Arliss. His critics say Steve has a temper, while his advocates say, "Maybe so, but he might yell at some folks who need yelling at." Arliss, on the other hand, has a reputation for being more cautious and analytical. Her critics say she is more apt to study a problem than "act" on it. Her advocates say, "Maybe so, but she is thorough and fair."

Perhaps Cowper is more

apt to stir the pot a little, just to see what bubbles up, and then adjust his course of action. Sturgulewski may be more apt to think longer about stirring the pot in the first place.

Both approaches are positive or negative attributes, depending on what one wants from government under varying political and economic circumstances. Perhaps the voters' task in November will be

to judge the most appropriate temperament to the demand of our times.

□ Mike Bradner publishes legislative and economic newsletters

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Anchorage Daily News

November 12, 1986

Mortgage bank replies

A recent article in the Daily News, "Sold out: Alaska borrowers fume as accounts peddled Outside," indicates the confusion and misunderstanding surrounding the mortgage lending process and our operations. This confusion exists nationally, and mortgage lenders have to accept some responsibility for it.

Manufacturers Hanover Mortgage Corporation is a mortgage bank, which means we allocate resources between an investor and a homeowner seeking a mortgage loan. In turn, this means we have a joint responsibility to guarantee investors the most secure investment possible and to service mortgagors as responsively as possible.

In Alaska, and throughout the U.S., we and other mortgage banks also buy mortgage loans from financial institutions and occasionally acquire their servicing rights. Many banks and S&Ls cannot take the risk of keeping their own originated loans because of interest rate fluctuations. A large number of institutions are in trouble or have failed because they made loans at 6, 8, or 10 percent and then watched interest rates skyrocket to 14 and 16 percent. By selling mortgage loans to mortgage bankers, banks and S&Ls not only receive a cash payment (which gives them funds for making more loans), but they also avoid interest-related risk.

Further, many banks and S&Ls do not have the resources to efficiently service their own mortgage loans, an activity that is both personnel and computer-intensive. In these cases, it's usually more cost effective for a national servicer, such as MHMC, to handle payments, escrows, payoffs, delinquencies, and foreclosures. For performing this service, we're compensated by the investor. We must be doing something right: We're the fourth largest mortgage servicer in the U.S.

A word about foreclosure. Our delinquency and foreclosure percentage is too high. This is cause for both concern and regret; we too are a major financial victim of every foreclosure. But the reason for this problem reflects directly on Alaska's present economic situation: Homeowners we and other institutions assumed would be good credit risks have proven otherwise. In retrospect, our underwriting procedures should have been more rigorous. On the other hand, the entire lending industry is witnessing the same situation in every energy-based economy state — which indicates that even the most thorough underwriting cannot guarantee acceptable delinquency rates.

We have great faith in Alaska and Alaskans. Which is why we've brought financial resources of Wall Street to provide for Alaska housing; why we've established on-site servicing representation in Anchorage; why we've established a major internal customer relations program to improve our responsiveness; and why I and other senior MHMC executives personally answer all customer calls and letters addressed to us.

We're not perfect. Mistakes happen and we're working hard to correct them. But I'm extraordinarily proud of our people. Last year, we originated twice as many loans as we did the previous year and our payoff rate was 10 times what it had been. Imagine how this unprecedented business explosion would affect a local supermarket — or the air traffic control system! Yet we were able to continue handling our business volume, instead of simply closing our Alaskan operations.

Certainly, we're in business to make a profit. But we're in business in Alaska because we also perform a service — for banks, savings & loans, Alaska Housing Finance, and ultimately, Alaskans who've dreamed of home ownership.

— Warren J. Carr
President

Manufacturers Hanover Mortgage Corporation



ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

October 15, 1985

MEMORANDUM

TO: Representative Randy Phillips

ATTN: Janet Seitz

FROM: Jay Livey *JL*
Legislative Analyst

RE: Laws Regarding the Out-of-State Sale of Mortgage Loan Servicing Portfolios
Research Request 87.018

You asked that we research the laws of other states regarding the out-of-state sale of mortgage loan servicing portfolios. Some mortgage lenders sell mortgage loan servicing portfolios to other financial institutions rather than servicing all the loans that they originate. To the consumer, this means that a financial institution other than the originator of their loan will be responsible for collecting monthly mortgage payments as well as processing any other paperwork involved with the mortgage loan agreement. Currently, there are no laws in Alaska which restrict or regulate the out-of-state sale of these servicing portfolios.

According to Mary Pfaff of the Mortgage Bankers Association of America (MBAA), Minnesota is the only state that has enacted legislation concerning the out-of-state sale of mortgage loan servicing portfolios. Minnesota law requires homeowners to be notified that their mortgage will be serviced by another financial institution and imposes a \$500 penalty on mortgage servicers if they are negligent in servicing a loan.

Janet Frank, of the Mortgage Bankers Association of America, also noted that the Association has adopted guidelines regarding the servicing of mortgage portfolios. A summary of these guidelines follows:

1. Centers servicing mortgage portfolios should provide adequate toll-free telephone service for borrowers.
2. An efficient procedure for handling complaints should be established.

3. Simple assumptions (i.e., those not requiring permission from an investor) should be processed within 30 days.
4. If a borrower has an escrow account, tax and insurance bills received fifteen days before discount or penalty dates should be paid by those dates. An escrow analysis should be completed on each mortgage account annually to assure that sufficient funds are available for insurance and taxes.
5. All mortgage payments should be processed within twenty-four hours of receipt by the mortgage company.
6. If servicing is to be transferred, a notice of transfer should be sent to the borrower by both the old and new servicers. The notice should provide all the information needed by the borrower to guarantee the efficient transfer of the servicing including: name, address and phone number of new servicer, the effective date of the transfer, instructions concerning interim payments and the name of a contact individual associated with the new servicer.

We have been waiting to receive a copy of the Minnesota law pertaining to the out-of-state sale of portfolios before completing this memorandum. This law has not yet arrived; we will send you a copy when it does. In the meantime, you should be able to obtain a copy directly from Lucille Steets, President of the Alaska Mortgage Bankers Association. She can be reached in Anchorage at the National Bank of Alaska (265-2860). Also, a copy of the MBAA guidelines has been attached to this memorandum.

I hope that this information is useful. If you require additional research, please do not hesitate to contact us.

JL

Attachment



1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

Mortgage Bankers Association of America

MORTGAGE SERVICING GUIDELINES

Developed by the:

Servicing Committee .
and
State and Local MBA Liaison Committee
of the
Mortgage Bankers Association of America

MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mortgage Servicing Guidelines

This document suggests general guidelines for the performance of residential mortgage servicing. The Mortgage Bankers Association of America recommends adherence to these guidelines whenever possible. It recognizes however that the practice of individual mortgage companies may vary for one or more reasons, including local custom or regulations, the pressure of year-end volumes, the impact of large transfers of servicing, or the nonperformance of third-party vendors. In recommending adoption of these guidelines, the MBA recognizes that meeting the time frames for performance described herein may not always be possible. The time frames do, however, represent general guidelines of practice.

Customer Service

Mortgage companies' servicing centers should provide adequate local, toll-free or collect-call telephone service for mortgagors. Recognizing that every company will experience periods of peak telephone volume (which will cause mortgagors to get a busy signal), the number of incoming telephone lines should be adequate to handle the average volume of calls.

Complaint Procedures

In any customer-related business, there are complaints. Every company should have a well-thought-out procedure for handling complaints promptly. Although some matters are complex and therefore slow to resolve, complaint procedures should provide (1) for an initial response to the mortgagor, acknowledging the matter within five (5) business days, (2) for continuous follow-up until the matter is resolved, (3) for notice of the resolution of the matter to the mortgagor, and (4) for regular reporting to senior management on the volume and nature of complaints.

Regulatory agencies also receive inquiries and complaints. To facilitate the agencies' role as conduits, mortgage companies should designate individuals to expedite regulators' issues. Individuals so designated should have the authority and resources available to resolve such complaints.

Discharge (Payoff)

Mortgage companies should make a good-faith effort to process mortgage discharges by sending completed documentation to the mortgagor or by filing documentation in accordance with state regulations within thirty (30) days (or as otherwise required by law). If documents are not available, or if a temporary backlog exists, companies should make a good-faith effort to satisfy their obligation to mortgagors by the use of alternatives, such as estoppel certificates.

Written requests from mortgagors (or their designees) for discharge information should be answered within five (5) business days.

Assumption Processing

When all necessary information has been received from buyer and seller; a simple assumption (which does not require permission from an investor or processing of an application) should be processed within thirty (30) days.

More complex assumptions--those on which the interest rate adjusts to market rate or that require an investor's permission--cannot be processed on a fixed schedule. Mortgage companies are nevertheless responsible for handling these assumptions promptly, apprising mortgagors of delays outside of their control.

New-Loan Processing

Payment instructions should be provided to mortgagors at least five (5) days before their first payment is due. All data required to properly service a mortgage should be entered into the mortgage company's records within twenty (20) days of the due date of the first payment.

Whenever servicing is transferred to a new servicer, notice of the transfer of servicing should be received by the mortgagor at least five (5) days before the due date of the mortgagor's next scheduled payment. If notice of transfer of servicing is not given in a timely fashion, the mortgagor's payment should be accepted, receipt of payment and a notice of transfer of servicing should be sent to the mortgagor; and the payment, should be remitted to the new servicer.

Payment of Mortgagor's Taxes and Hazard Insurance

For mortgagors with escrow (impound) accounts, the following standards apply: Tax bills received fifteen (15) days before discount or penalty dates should be paid on or before those dates. Hazard insurance bills received fifteen (15) days before the due date of payment should likewise be paid on or before the due date.

Mortgage companies are responsible for tax penalties and insurance cancellations, except in cases where a mortgagor has received a bill and has failed to remit it to the mortgage company within fifteen (15) days of the due date.

Mortgage companies are plainly responsible for losses resulting from nonpayment or delinquent payment of a mortgagor's taxes or insurance premiums caused by the negligence of the mortgage companies' employees or by procedural omissions. As a measure of protection for mortgagors and investors, mortgage companies should maintain insurance coverage for errors and omissions consistent with the standards of the Federal National Mortgage Association.

To ensure that sufficient funds are accrued to pay taxes and insurance premiums, mortgage companies should perform a complete escrow (impound) analysis on every mortgagor's escrow (impound) account at least once a year. The analysis should clearly show how the new payment amount has been calculated and should be received by the mortgagor at least ten (10) days before the effective date of changes in payment.

Mortgage companies should not insist that mortgagors remit a changed payment amount while the companies are conducting research in response to a substantive objection to escrow (impound) analysis. By this guideline, temporary suspension of a payment change does not apply, for example, when a mortgagor objects to the need for an escrow (impound) account or to the standard industry method of calculating escrow (impound) payments.

Payment Processing

On a nonaccelerated mortgage, if a mortgage payment is made in an amount equal to the current monthly payment, or in an amount equal to the current monthly payment plus the amount of past-due payments along with accrued late charges, it should be processed within twenty-four (24) hours of receipt by the mortgage company. A late charge should not be assessed if full payment has been received before the date late charges are authorized in the mortgage documents.

Forbearance

Mortgage companies should not institute foreclosure action while investigating a reasonable customer dispute concerning payments received. Forbearance from foreclosure is not urged when a chronically delinquent mortgagor appears to be raising the issue only to forestall foreclosure action. If the mortgage company has made an error concerning payment, it will seek to ensure that the customer's credit rating is not affected, by correcting payment records and, if needed, by correcting information already submitted to a credit-reporting agency or to another lender.

Transfers of Servicing

When making transfers of servicing, sellers and buyers have a responsibility to each other and to the mortgagors whose loans are transferred. In such transactions, mortgage companies should have a contract that details their several responsibilities and provides a timetable for completing agreed-upon tasks. In undertaking large transfers, sellers and buyers should make certain that sufficient manpower and facilities are dedicated to the transfer to ensure that their obligations to one another and to mortgagors are met. The following is a list of the principal responsibilities of sellers and buyers:

Sellers' Responsibilities. It is recommended that sellers should:

1. Send a notice of transfer of servicing to mortgagors, which includes:
 - o The effective date of transfer to the buyer;
 - o The new servicer's name, address, and telephone number (toll-free number, if available);
 - o The name of a referral person or department in the buyer's company;
 - o Instructions concerning interim payments (until notice of the transfer of servicing is sent from the buyer);
 - o Reassurance that the transfer of servicing does not affect the terms and conditions of the mortgage;

- o Information about mortgage life insurance, mortgage disability insurance, or any other form of optional mortgage insurance, if applicable.
- 2. Provide the hazard insurance agent or carrier with a notice of transfer in the form of a corrected mortgagee clause.
- 3. Notify the tax-bill service or taxing authority of the transfer, if applicable.
- 4. Notify the FHA, VA (in the case of loans in foreclosure), or mortgage insurance company of the transfer.
- 5. Bring escrow (impound) accounts current by paying outstanding bills.
- 6. Transfer escrow (impound) balances and buydown subsidy funds to the buyer, together with any interest owing to the mortgagor.
- 7. Provide the following documents and information to the buyer, when appropriate:
 - o Complete loan files or photocopies and/or microfiches of loan files;
 - o Insurance policies or certificates and related correspondence, including any pending loss claims;
 - o Contracts with a tax-bill service or a listing of tax-service contract numbers, if applicable;
 - o Servicing history, such as the last twelve months' payments and disbursements and the last escrow analysis;
 - o Collection history on all loans;
 - o Foreclosure information on loans transferred during the foreclosure process;
 - o Bankruptcy information and documents;
 - o Pending payoff and/or assumption statements;
 - o Other information concerning pending items, including, for example, partial releases, mortgage life or mortgage disability claims, and any matters in litigation;

- o Photocopies of letters and notices concerning the transfer of servicing addressed to mortgagors, hazard insurance agents and carriers, tax-bill services, the FHA, the VA, mortgage insurance companies, etc.
8. When the physical transfer of servicing is completed:
- o Answer mortgagors' questions about the transfer;
 - o Forward mortgage payments daily to the buyer (for a period of at least thirty (30) days);
 - o Forward correspondence, bills, receipts, and documents relating to the transferred loans promptly.

Buyers' Responsibilities. It is recommended that buyers should:

1. Send a notice of the transfer of servicing to mortgagors, recapitulating and elaborating on the information contained in the seller's notice. The buyer's notice should be sent concurrently with the seller's, or shortly thereafter.
2. Prepare for the transfer of servicing by ensuring that adequate facilities and staff are available to set up loan information from transferred files quickly.
3. Conduct a legal review of state requirements before buying servicing, in order to ensure compliance with state laws, statutes, and regulations and with industry standards for servicing.
4. When the transfer of servicing is completed:
 - o Respond to mortgagors' questions and requests concerning payoffs, assumptions, year-end statements, servicing practices (e.g., procedures for making payments, acceptance of toll-free or collect telephone calls), etc. (A buyer should make every effort to avoid referring mortgagors back to the previous servicer. If a mortgagor's request cannot be honored without recourse to the seller, it is the buyer, not the mortgagor, who should communicate with the seller);
 - o Handle questions from insurance agents or carriers, taxing authorities, government agencies, etc.;

- o Practice forbearance with mortgagors when sorting out transfer-related problems (delinquencies, the assessment of late charges).

Training

Mortgage companies should provide training to all employees, so that they do their work well and are able to provide informed service to mortgagors.

BOARD OF GOVERNORS

Mortgage Bankers Association of America
Vista International - Washington, D.C.
September 4-5, 1986

RESOLUTION

SUBJECT: Mortgage Servicing Guidelines

BE IT RESOLVED THAT:

The Mortgage Bankers Association of America recognizes that the attached Mortgage Servicing Guidelines generally describe proper residential mortgage servicing and therefore recommends adherence to these guidelines by its membership.

EXPLANATION:

Recent attempts by state legislators to regulate certain aspects of mortgage servicers' relationships with their customers prompted the Servicing Committee and State and Local MBA Liaison Committee to recommend the establishment of uniform mortgage servicing guidelines. A group comprised of members from both of these committees drafted the attached document. These Mortgage Servicing Guidelines are intended as a set of suggested business practices that the industry should strive to meet in order to protect its customers and protect the industry from unnecessary regulation.

RECOMMENDATION OF: Executive Committee



1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

Mortgage Bankers Association of America

MORTGAGE SERVICING GUIDELINES

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New-Loan Processing

Payment instructions should be provided to mortgagors at least five (5) days before their first payment is due. All data required to properly service a mortgage should be entered into the mortgage company's records within twenty (20) days of the due date of the first payment.

Whenever servicing is transferred to a new servicer, notice of the transfer of servicing should be received by the mortgagor at least five (5) days before the due date of the mortgagor's next scheduled payment. If notice of transfer of servicing is not given in a timely fashion, the mortgagor's payment should be accepted, receipt of payment and a notice of transfer of servicing should be sent to the mortgagor; and the payment, should be remitted to the new servicer.

Payment of Mortgagor's Taxes and Hazard Insurance

For mortgagors with escrow (impound) accounts, the following standards apply: Tax bills received fifteen (15) days before discount or penalty dates should be paid on or before those dates. Hazard insurance bills received fifteen (15) days before the due date of payment should likewise be paid on or before the due date.

Mortgage companies are responsible for tax penalties and insurance cancellations, except in cases where a mortgagor has received a bill and has failed to remit it to the mortgage company within fifteen (15) days of the due date.

Mortgage companies are plainly responsible for losses resulting from nonpayment or delinquent payment of a mortgagor's taxes or insurance premiums caused by the negligence of the mortgage companies' employees or by procedural omissions. As a measure of protection for mortgagors and investors, mortgage companies should maintain insurance coverage for errors and omissions consistent with the standards of the Federal National Mortgage Association.

To ensure that sufficient funds are accrued to pay taxes and insurance premiums, mortgage companies should perform a complete escrow (impound) analysis on every mortgagor's escrow (impound) account at least once a year. The analysis should clearly show how the new payment amount has been calculated and should be received by the mortgagor at least ten (10) days before the effective date of changes in payment.

Mortgage companies should not insist that mortgagors remit a changed payment amount while the companies are conducting research in response to a substantive objection to escrow (impound) analysis. By this guideline, temporary suspension of a payment change does not apply, for example, when a mortgagor objects to the need for an escrow (impound) account or to the standard industry method of calculating escrow (impound) payments.

Payment Processing

On a nonaccelerated mortgage, if a mortgage payment is made in an amount equal to the current monthly payment, or in an amount equal to the current monthly payment plus the amount of past-due payments along with accrued late charges, it should be processed within twenty-four (24) hours of receipt by the mortgage company. A late charge should not be assessed if full payment has been received before the date late charges are authorized in the mortgage documents.

Forbearance

Mortgage companies should not institute foreclosure action while investigating a reasonable customer dispute concerning payments received. Forbearance from foreclosure is not urged when a chronically delinquent mortgagor appears to be raising the issue only to forestall foreclosure action. If the mortgage company has made an error concerning payment, it will seek to ensure that the customer's credit rating is not affected, by correcting payment records and, if needed, by correcting information already submitted to a credit-reporting agency or to another lender.

Transfers of Servicing

When making transfers of servicing, sellers and buyers have a responsibility to each other and to the mortgagors whose loans are transferred. In such transactions, mortgage companies should have a contract that details their several responsibilities and provides a timetable for completing agreed-upon tasks. In undertaking large transfers, sellers and buyers should make certain that sufficient manpower and facilities are dedicated to the transfer to ensure that their obligations to one another and to mortgagors are met. The following is a list of the principal responsibilities of sellers and buyers:

Sellers' Responsibilities. It is recommended that sellers should:

1. Send a notice of transfer of servicing to mortgagors, which includes:
 - o The effective date of transfer to the buyer;
 - o The new servicer's name, address, and telephone number (toll-free number, if available);
 - o The name of a referral person or department in the buyer's company;
 - o Instructions concerning interim payments (until notice of the transfer of servicing is sent from the buyer);
 - o Reassurance that the transfer of servicing does not affect the terms and conditions of the mortgage;

- o Information about mortgage life insurance, mortgage disability insurance, or any other form of optional mortgage insurance, if applicable.
- 2. Provide the hazard insurance agent or carrier with a notice of transfer in the form of a corrected mortgagee clause.
- 3. Notify the tax-bill service or taxing authority of the transfer, if applicable.
- 4. Notify the FHA, VA (in the case of loans in foreclosure), or mortgage insurance company of the transfer.
- 5. Bring escrow (impound) accounts current by paying outstanding bills.
- 6. Transfer escrow (impound) balances and buydown subsidy funds to the buyer, together with any interest owing to the mortgagor.
- 7. Provide the following documents and information to the buyer, when appropriate:
 - o Complete loan files or photocopies and/or microfiches of loan files;
 - o Insurance policies or certificates and related correspondence, including any pending loss claims;
 - o Contracts with a tax-bill service or a listing of tax-service contract numbers, if applicable;
 - o Servicing history, such as the last twelve months' payments and disbursements and the last escrow analysis;
 - o Collection history on all loans;
 - o Foreclosure information on loans transferred during the foreclosure process;
 - o Bankruptcy information and documents;
 - o Pending payoff and/or assumption statements;
 - o Other information concerning pending items, including, for example, partial releases, mortgage life or mortgage disability claims, and any matters in litigation;

- o Photocopies of letters and notices concerning the transfer of servicing addressed to mortgagors, hazard insurance agents and carriers, tax-bill services, the FHA, the VA, mortgage insurance companies, etc.
8. When the physical transfer of servicing is completed:
- o Answer mortgagors' questions about the transfer;
 - o Forward mortgage payments daily to the buyer (for a period of at least thirty (30) days);
 - o Forward correspondence, bills, receipts, and documents relating to the transferred loans promptly.

Buyers' Responsibilities. It is recommended that buyers should:

1. Send a notice of the transfer of servicing to mortgagors, recapitulating and elaborating on the information contained in the seller's notice. The buyer's notice should be sent concurrently with the seller's, or shortly thereafter.
2. Prepare for the transfer of servicing by ensuring that adequate facilities and staff are available to set up loan information from transferred files quickly.
3. Conduct a legal review of state requirements before buying servicing, in order to ensure compliance with state laws, statutes, and regulations and with industry standards for servicing.
4. When the transfer of servicing is completed:
 - o Respond to mortgagors' questions and requests concerning payoffs, assumptions, year-end statements, servicing practices (e.g., procedures for making payments, acceptance of toll-free or collect telephone calls), etc. (A buyer should make every effort to avoid referring mortgagors back to the previous servicer. If a mortgagor's request cannot be honored without recourse to the seller, it is the buyer, not the mortgagor, who should communicate with the seller);
 - o Handle questions from insurance agents or carriers, taxing authorities, government agencies, etc.;