

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

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THE ANWR LAND EXCHANGES

SUMMARY OF WHAT THE ANWR DATA AND THE RESOURCE ANALYSIS METHODOLOGY CANNOT DO

The Coastal Plain Data

Neither the precise location, the type nor the amount of petroleum resources beneath the ANWR coastal plain are known at this time. Although the KIC well data may provide tremendous additional insight, the geologic and geophysical data are simply insufficient to determine exactly what is there with a high degree of confidence.

Resource Analysis Methodology

This methodology cannot provide the actual dollar value of the subsurface oil and gas rights beneath individual 2,560 acre tracts in ANWR.

The methodology is inadequate for that purpose because it can, at best, only provide a range of estimates of value, not the actual value.

The actual value of each of the ANWR tracts will only be known after the reservoir(s), if there is one, has been fully produced. For only then will the geologic and economic variables (price of oil, cost of infrastructure, etc.) have revealed themselves.

DOI's ANWR tract values are merely one set of estimates based on one groups' assessment of numerous SUBJECTIVE input variables, such as size and exact location of the potential trap(s), thickness of potential productive reservoir rocks, gas/oil mix, percent fill of the trap(s), future price of oil, timing of development, transportation costs, etc.

There are no studies, to our knowledge, which show more than just a random correspondence between actual competitive bids and either BLM's or MMS' pre-sale, minimum acceptable bid estimates. The actual bids are generally much higher than the estimates.

DOI's single point estimates of value for each of the 576 individual ANWR tracts are not the actual value of those tracts-- however, perhaps more importantly, they are also not the FAIR MARKET VALUE of the ANWR tracts.

FAIR MARKET VALUE is established only in open, competitive bidding in a traditional competitive lease sale.

The terms of both the Old Harbor-Texaco and Koniag-Chevron Group/Phillips lease agreements indicate some measure of what the minimum fair market value for the ANWR tracts acquired in those agreements might be. It is a minimum value because the process was non-competitive, with only the partner companies involved.

THE ANWR LAND EXCHANGES

QUOTES CONCERNING THE RESOURCE ANALYSIS METHODOLOGY

Resource analysis methodology can neither determine the actual dollar value of the individual 2,560 acre ANWR tracts nor the true, fair market value of those tracts. The methodology is limited by the available ANWR data and by the fact that it can only provide a range of subjective estimates of tract value.

Quotes on Limitations of Methodology:

1. From Koniag, Inc. Proxy Statement, October 8, 1987, page 30:

"...there is substantial uncertainty as to the value of the Oil and Gas EDP (Exploration, Development and Production) Interests and the value of the contingent interests under the Lease Agreements." (emphasis added)

2. From Old Harbor Proxy Statement, August 28, 1987, page 10:

"...nor can there be any assurance that the values set by DOI fairly estimate the oil and gas potential in the ANWR tracts selected by Old Harbor."

3. From the Energy Information Administration Service Report, Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge, Revised Edition, October, 1987:

page 11: "Without the benefit of exploratory drilling on site, both kinds of estimates include significant subjective judgements; and, estimates of in-place and economically recoverable oil are both best described in terms of probability distributions."

page 19: "It should also be understood that any probabilistic assessment of recoverable crude oil reserves is basically judgmental -- in spite of the scientific appearance of complex computer models that may have been used in deriving it."

4. From attachment to memo to ANWR Land Exchange Negotiating Team from Bill Horn, June, 1987.

"Devoting sufficient resources to appraising the oil and gas development value of the ANWR is certainly an important ingredient in achieving fair market value for the public's resources." "...appraisals in and of themselves do not ensure receipt of fair market value. Receipt of fair market value can be ensured under adequate, open competition among willing but not obligated buyers and sellers."

5. From the Arctic National Wildlife Refuge, Alaska, Coastal Plain Resource Assessment, 1987, Volume 1:

"The existence of potential hydrocarbon formations or prospects is not known with certainty prior to exploratory drilling. Information concerning the existence of potential producing fields is derived from inferences, extrapolations and subjective judgments."..."No data are available on the nature and distribution of included hydrocarbons or whether hydrocarbons are present at all. An exact prediction of resource quantities under such conditions of uncertainty is impossible because the uncertainties in the input data translate to uncertainties in the answers." (emphasis added)

6. In Decision Analysis for Petroleum Exploration, Paul D. Newendorp, 1975, page 368:

"...we must not fall into the error of believing that because we have attached a number to a chance that we have thereby made a successful issue more sure, or have in any way altered its probability. Further, we must be ever on the watch for that most insidious and widespread superstition that assumes that mathematical manipulation, if sufficiently accurate, involved and prolonged can transmute doubtful data into positive scientific fact."- Hayward, 1934.

THE ANWR LAND EXCHANGES

SUMMARY OF DOI'S FAILURE TO RECEIVE FAIR MARKET VALUE

In order to estimate the undiscovered recoverable oil resources for an area, it is necessary to produce maps of all of the individual prospects.

Many of the selections made by the Native groups and their industry partners in ANWR, by DOI's own admission, overlie prospects which DOI failed to map. Therefore, DOI would have been unable to estimate dollar value for the resources contained in these "unmappable" prospects.

Many of the selections overlie the elongated, northeast-southwest oriented structural trends that involve the Tertiary and Mesozoic rocks in major thrust-related folds.

DOI was unable to produce maps of these potential hydrocarbon-bearing structures, as illustrated in the following direct quotes from the final 1002 report.

However, DOI attributed a minimum value of about \$300 per acre to most of these tracts based on unknown considerations and methodology. The industry partners obviously attributed great value to these tracts since they were selected by them in the non-competitive selection process.

Quotes from the 1002 Report:

p.67: "No prospects were adequately resolved within the detached and highly deformed Mesozoic and Tertiary rocks."
"...the probability of traps occurring in the subsurface in this structural setting is high, although determining their location on the basis of existing seismic data is difficult."

p. 76: "The estimate of economically recoverable oil resources for the 1002 area represent an assessment of only the structural prospects which were identified on the basis of seismic interpretation." (emphasis added)

These quotes reveal that recoverable resources were estimated only for the 26 seismically mapped structures; none of the major Tertiary/Mesozoic structural trends (over which many selections were made) were adequately resolved to even attempt estimates of resources or dollar value.

As revealed in the Koniag-Chevron Group/Phillips and Old Harbor-Texaco lease acquisition agreements and in the fact that DOI assigned only a minimum value to many tracts where prospects could not be mapped or identified, the native corporations stand to receive substantially more from the exploration of the tracts which they selected than DOI has claimed those lands to be worth.

THE ANWR LAND EXCHANGES

SUMMARY OF THE IMPACT OF THE EXCHANGES

The Department of the Interior (DOI) in its press release on the land exchanges dramatically downplays the impact of the exchanges when it is quite clear that the selections, in effect, transfer the subsurface petroleum rights to the most prospective portions of the coastal plain to a few select companies and Native corporations in a non-competitive process.

The selection pattern, when overlain by the major structural trends maps (the trends that are likely to be traps or contain multiple traps), reveals that the most prospective ANWR tracts have been selected in either the 1983 ASRC exchange or the currently proposed exchange.

The selections target the structurally highest portions of the very large prospects #18 and #19 (from the 1002 report), as well as the prospects with a chance for closure aligned along the major Tertiary thrust fronts.

All tracts within the boundaries of the 26 structures identified in the 1002 report are not equally prospective. Those tracts which overlie portions of structures that exhibit closure in all directions, and those tracts which overlie the highest parts of the structures are the most favorable. These are, in large part the tracts that have been selected for exchange.

Questions for the ANWR Exploration Experts

One measure of the relative prospectiveness of the lands already exchanged or proposed for exchange is revealed in the answers to the following questions which can be asked of explorationists with specific knowledge of all the ANWR data:

1. Would you rather own the approximately 266,000 acres (about 100,000 acres in the previous ASRC exchange and about 166,000 in the currently proposed exchange) already exchanged and selected for exchange in ANWR, or the entire remaining acreage (approximately 1.25 million acres) of the coastal plain?
2. Disregarding the previous ASRC exchange lands, would you rather own the approximately 166,000 acres selected in the currently proposed exchange, or any other 166,000 acres of the coastal plain?
3. Again, disregarding the previous ASRC exchange lands, would you rather own the approximately 166,000 acres selected in the currently proposed exchange, or the entire remaining coastal plain acreage (approximately 1.25 million acres)?

THE ANWR LAND EXCHANGES

SUMMARY OF THE VALUE TO BE EXCHANGED

For the purpose of the 1983 ASRC ANWR land exchange, DOI originally estimated the subsurface mineral rights of the approximately 100,000 acres of the ANWR coastal plain to be conveyed to ASRC to be worth about \$388.5 million, of which \$111.8 million represented the bonus value and \$276.7 represented the royalty value.

Through a discounting process that considers Alaska's 90% statutory revenue share, and the application of risk factors related to the likelihood of opening and ultimate ownership, the original value of \$388.5 million was reduced downward to a final total value about \$5.9 million.

DOI conveyed the subsurface mineral rights to the approximately 100,000 acres of the coastal plain for the surface rights to about 100,000 acres in the Chandler Lake area which had an attributed value of \$5.1 million.

In the currently proposed exchanges, DOI stands to receive about 891,000 acres of refuge inholdings with a total NEGOTIATED value of about \$538.7 million. DOI retained no royalty interest in any of the ANWR exchange lands.

The Native groups and their industry partners stand to receive the subsurface mineral rights to about 166,278 acres of highly prospective coastal plain acreage, valued by DOI for the purpose of this exchange at about \$538.7 million.

The proxy statements of Old Harbor and Koniag, Inc. reveal that these Native corporations will transfer the oil and gas rights to their industry partners for cash payments which approximately equal the total value DOI attributed to the ANWR lands selected PLUS SUBSTANTIAL royalty interests in any production from those lands and certain other ANWR lands their partners may acquire.

Old Harbor stands to receive royalty payments of 14% on the lands it selected plus 1.5% on certain other ANWR lands their partner, Texaco may acquire.

Koniag stands to receive royalty payments of 20% (which can be converted to a 40% net profit share) on the lands it selected plus 0.51% and/or 0.255% on certain other ANWR lands their partners, the Chevron Group and Phillips may acquire.

The terms of the lease acquisition agreements between the other four Native entities and their respective industry partners are not known.

THE ANWR LAND EXCHANGES

SUMMARY OF THE BASIS FOR INDUSTRY BIDS IN A LEASE SALE

Historically, competitive lease sales, even in high potential areas, have drawn much interest from some oil companies, and very little from others. The bidding in a sale can be very diverse; some tracts, usually those perceived as having high potential, oftentimes receive a wide range of bids. On the other hand, certain other tracts may be highly attractive to some companies but of no interest to others.

Oil companies determine their specific bidding strategies based upon certain of the following considerations:

1. The company's resource evaluation based on geological and geophysical interpretation of the subsurface.
2. The company's current lease holdings adjacent to sale area.
3. The nearby production facilities the company operates.
4. The degree of competition anticipated from other oil companies for specific tracts.
5. The company's exploration budget allocation for bidding in the lease sale.
6. The company's current tax situation.
7. The terms of the lease sale (bonus variable, net profit, royalty, length of lease, etc.).

ANALYSIS OF VALUATION OF CORPORATION LANDS
TO BE ACQUIRED IN PROPOSED ANWR LAND EXCHANGE

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

The U.S. Department of the Interior (DOI) and several Alaska Native corporations (Corporations) have entered into a tentative agreement whereby DOI would exchange oil and gas interests in certain tracts within the Coastal Plain of the Arctic National Wildlife Refuge (ANWR) for certain Corporation surface estate lands in several Alaska national wildlife refuges. The proposal calls for approximately 891,000 acres of Corporation refuge inholdings to be exchanged for approximately 166,000 acres of DOI oil and gas interests. The land and interests to be exchanged are valued by DOI at \$538.7 million.

The Alaska Department of Natural Resources has completed an analysis of the process used by the exchange participants to value the Corporation lands. This analysis reveals a disturbing departure from standard federal fair market land appraisal practices. The result is a negotiated value for these lands which exceeds by from three to almost nine times the federal fair market appraisal values.

Although fair market value appraisals were completed by DOI for the Corporation lands, the resultant values were not used as the basis for the proposed land exchange. Instead, DOI employed an additional set of subjective factors in an attempt to capture through negotiation an intangible "public interest" value for uses other than development on the subject lands. The final value assigned the Corporation lands, and used as the basis for acquisition of the ANWR oil and gas rights through exchange, was determined solely through negotiation between the Corporations and the DOI Assistant Secretary for Fish and Wildlife and Parks (Assistant Secretary). Unfortunately, the administrative record detailing this negotiation process is inadequate to determine all applicable considerations used by the parties in negotiating and assigning the final "public interest" values. Furthermore, the available record does not reveal how the parties may have addressed and discounted a number of individual factors which collectively influenced the valuation process, as described below.

1. DOI did not follow uniform federal land appraisal practices. Instead it substituted subjective factors through negotiation to inflate the final value of the Corporations' surface estate refuge inholdings.

DOI is required to adhere to the Uniform Appraisal Standards for Federal Land Acquisitions (1973) when conducting appraisals for purposes of an exchange of land. These standards require that fair market value appraisals be completed as a basis for subsequent land transactions. Furthermore, as described in the policy section of these standards, "in acquiring real property, or any interest therein, it is the policy of the United States

impartially to protect the interests of all concerned." This policy was reinforced by the U.S. Supreme Court, whereby the following appears Searl v. School District, Lake County, 133 U.S. 553, 562 (1890).

"Since public funds are involved, it is incumbent upon all who are employed to represent the public interest . . . it is the duty of the State in the conduct of the inquest by which compensation is ascertained, to see that it is just, not merely to the individual whose property is taken but to the public which is to pay for it."

Although the DOI completed fair market value appraisals of the Corporations land during 1985-87, at an estimated cost to the United States of more than \$350,000, these appraisals, with one exception (accessible land within the Kenai National Wildlife Refuge), were not used as the basis for land valuation in the proposed exchange. Instead, DOI chose to develop and engage a heretofore new, untried and subjective procedure to value the nonfederal lands acquired by DOI through exchange, and then failed to adhere to this procedure.

The new DOI land valuation procedure is outlined in a February 20, 1987 memorandum to the federal ANWR Exchange Negotiating Team from the Assistant Secretary. The procedure attempted to capture the environmental/public interests which may be associated with the lands. This information was then used by DOI to negotiate final values with the Corporations. However, the sole responsibility within DOI to negotiate final land values for the Corporation land resided with the Assistant Secretary.

Section 1302(h) of the Alaska National Interest Lands Conservation Act (ANILCA) does allow DOI to conduct land exchanges in Alaska for other than equal value, if it is determined they are in the public interest. However, Section 1302(h) of ANILCA does not absolve DOI from the responsibility of defining the "public interest" value in precise terms which can be examined by the affected public.

According to DOI officials and Corporation representatives knowledgeable about the valuation process, the Assistant Secretary met individually behind closed doors to negotiate and determine final Corporation land values. There is little or no written administrative or other public record to document the rationale used by the Assistant Secretary to determine these final values. It is reported that no other DOI official besides the Assistant Secretary was present at any of these final valuation meetings. As a result, the public record does not document the valuation adjustments which may have occurred. Therefore, there is no way to ascertain whether the negotiations between the Assistant Secretary and the various Corporations were handled

consistently with similar valuations and adjustments for land of similar type and character.

The only valuation evidence pertaining to the final stages of these negotiations which does exist, was produced by the Corporations. Between June 29, 1987 and July 2, 1987, each of the Corporations provided the Assistant Secretary with written summary reports detailing the acreage and land valuation figures which had been mutually negotiated. On July 6, 1987, the Assistant Secretary then signed each of the Corporation letters to denote that DOI concurred with each of the acreage and value figures specified therein. Two of the six letters were noted as either "confidential and proprietary pursuant to the Freedom of Information Act," or "confidential exempt from FOIA disclosure."

Figure 1 (attached) provides a comparison of the actual fair market land appraisal value completed by DOI from 1985-1987, and the final negotiated values for the Corporation land. The comparison is not exact, because more Corporation land was appraised by DOI than was ultimately included in the proposed exchange. However, most, if not all of the appraised areas included the land in the proposed exchange. In addition, the excess land included in the DOI appraisals was of very similar character and type to the exchanged land.

This comparison reveals that the average Corporation land \$/acre value as determined by DOI fair market appraisal was \$111.73. The average Corporation land \$/acre value as determined by negotiation between the Corporations and the Assistant Secretary was \$601.89. Therefore, the average \$/acre value of the Corporation land increased through negotiation by an average of \$490.16/acre, or approximately 439 percent. The range of the average \$/acre value differential among the Corporations land varied considerably. For example, the Akhiok-Kaguvak land increased in value through negotiation by approximately 200 percent, while the Doyon land increased by approximately 153 percent.

2. The negotiated values for the Corporation lands do not accurately account for the effect of Section 22(g) of ANCSA.

Section 22(g) of the Alaska Native Claims Settlement Act of 1971 (ANCSA) provides that land patented to a village corporation within a component of the National Wildlife Refuge System (existing in 1971) shall reserve to the United States the right of first refusal if the land is ever sold by the corporation. In addition, Section 22(g) requires that such land remain subject to the federal laws and regulations governing the use and development of such refuges.

Approximately 45 percent of the total Corporation land included in the proposed ANWR land exchange is subject to the provisions of Section 22(g). Section 22(g) affects all of the Koniag, and

Akhiok-Kaguyak land as well as about 99 percent of the Old Harbor land (located within the Kodiak National Wildlife Refuge) and over 50 percent of the Native Lands Group land (located within the Yukon Delta National Wildlife Refuge and the Kenai National Wildlife Refuge).

The effect of Section 22(g) on land use and resultant land value is profound. Land subject to Section 22(g) may only be used and developed if such uses will not materially impair the values for which the refuge was established. This development restriction has a substantial depressive effect upon the market value of land.

An example of this effect is contained in an independent report obtained by Koniag to review the DOI fair market value appraisal of its land. Koniag retained the Dirksen Appraisal Company of Anchorage, Alaska to review and analyze the methodology used in the DOI appraisal. In a September 24, 1987 letter to Koniag, Dirksen concluded that the USFWS appraisal overstated the market value of the Koniag lands by 40 to 45 percent. He further noted in the letter that the impact of Section 22(g) could reduce values from a low of 10 percent to a high of 90 percent, depending upon the land involved and the degree of control exercised by the U.S. Fish and Wildlife Service (USFWS).

The DOI administrative record fails to accurately describe the extent to which Section 22(g) resulted in a discount effect upon the Corporation land. Even the Corporation letters (cosigned by the Assistant Secretary) which identify the negotiated values are inconclusive. The Akhiok-Kaguyak letter fails to mention Section 22(g) entirely. The Old Harbor letter includes only a casual reference in a footnote to a 22(g) discount. The Koniag letter (June 29, 1987) refers to a 22(g) discount of 13 percent. However, this discount is described to apply to only 33 percent of the Koniag lands involved in the proposed exchange. The Native Lands Group land subject to Section 22(g) appears to have been discounted to a lesser (than 13 percent) extent.

3. The negotiated values for the Corporation lands do not accurately account for the effects of the Corporation retention of subsistence access easements.

Under terms of the proposed exchange, the affected village residents will retain certain easements on the land to be transferred to DOI. These easements will be retained for subsistence and access purposes. They grant in perpetuity the right of access for villagers to enter upon and cross the lands for the purpose of engaging in customary and traditional uses of wild and renewable resources for direct personal or family use and consumption. Also included is the right to make and sell handicraft items and continue customary trade from these lands.

The effect of these retained easements on the Corporation land

values was not consistently accounted for in the valuation process. The DOI fair market value appraisals failed entirely to deal with these easements, most likely because at the time most of the appraisals were completed, these easements were not yet part of the overall land exchange proposal.

According to the Koniag proxy statement, dated October 8, 1987, DOI and Koniag negotiated a value for the Koniag retained subsistence access easement equal to 2 percent of the gross value of the Koniag land. However, the DOI administrative record, including the Assistant Secretary's February 20, 1987 memorandum, includes no mention of a deduction for the retained subsistence access easements.

Doyon's letter to the Assistant Secretary (July 2, 1987) detailing final acreages and negotiated land values also identifies a 2 percent subsistence easement reduction. However, this reduction is shown to apply to only about 30 percent of Doyon's land included in the proposed exchange.

Therefore, it is difficult to determine whether DOI uniformly discounted this or other Corporation land values also subject to the subsistence access easements. The only other proxy statement published to date (Old Harbor, August 28, 1987), includes no mention of any valuation discount, even though there is specific reference to the retainment of these subsistence access easements. If there is an across-the-board 2 percent subsistence access easement deduction on all Corporation land subject to the easement, DOI has failed entirely to describe the rationale behind the deduction.

4. The negotiated values for the Corporation lands do not recognize the risk associated with the Corporation's retention of the subsurface estate.

All Corporation land proposed for exchange excludes the subsurface (mineral) estate, even though this estate (where owned by the Corporations) was potentially available for acquisition by DOI. Most of the Corporation areas proposed for exchange consist of Native village corporation surface estate land acquired under ANCSA. Outside of the village corporation land within those national wildlife refuges in existence in 1971, Native regional corporations acquired the subsurface estate under the village corporation lands (approximately 55 percent of the total Corporation land proposed for exchange).

According to DOI correspondence, it was determined early in the exchange process that the Corporation subsurface estate would not be acquired. The rationale for this decision appears to be that the additional cost to the U.S. to obtain these lands was not justified, nor necessary to protect refuge resources.

In a March 6, 1987 letter to the Co-Chair of the Alaska House Resources Committee, the Assistant Secretary suggested that including a subsurface estate component in the ANWR exchanges might have an adverse impact on federal efforts to acquire the Corporation in-holdings. He said the acquisition of the subsurface estate:

" . . . might work contrary to our exchange objectives (i.e. subsurface interests offer no wildlife values per se). In the context of the current exchange proposals, we are unaware of any significant subsurface resources that might be developed in the foreseeable future. If there are developable subsurface resources available, their exchange value, if high, may inhibit our exchange objectives by reducing the amount of ANWR interests that might otherwise be available for the acquisition of inholdings."

However, this finding is inconsistent with the facts. Under both state and federal law, the subsurface estate owner has the right to reasonably access and utilize the surface estate as part of his ownership interest. Therefore, the failure of DOI to acquire the subsurface estate leaves the threat of future exploration and development on these lands for locatable minerals, including oil and gas. Furthermore, under ANCSA, the subsurface estate is defined to include sand and gravel, a resource in high demand in many rural areas of Alaska. The residual subsurface ownership interest is yet another influence on the value of the surface estate which DOI failed to address.

It has been suggested that the DOI and Corporations may have purposefully excluded the Corporation subsurface estate from the proposed land exchange due to concern that it may trigger the revenue sharing requirements of Section 7(i) of ANCSA. Section 7(i) provides that ANCSA regional corporations (which own the subsurface estate under village corporation surface estate) must share with all other regional corporations 70 percent of the revenues derived from timber and the subsurface estate conveyed to them under ANCSA.

There is evidence to support this contention. On July 16, 1987, the Sealaska Corporation (an ANCSA regional corporation not involved in the proposed exchanges) initiated an arbitration against Koniag (an exchange participant) claiming that any revenues derived from ANWR oil and gas interests acquired by Koniag in the proposed exchange are subject to the revenue sharing provision of Section 7(i). There is as yet no ruling in response to this claim.

5. The negotiated values for the Corporation land do not reflect the title uncertainty associated with the land.

The Corporation land proposed for exchange includes many areas which are selected but not owned by the Corporations. Although the selections have been reviewed by the Bureau of Land Management (BLM), and are preliminarily determined to be valid, there can be no absolute claim of ownership to these lands until they are actually conveyed to the Corporations. All ANCSA land selections are subject to valid existing rights, including possible third-party interests (e.g. Native allotments, federal homesites, trade and manufacturing sites, etc.) and ownership claims by the State of Alaska to submerged lands under navigable waters.

Approximately 25 percent of the Corporation land proposed for exchange is selected, but not yet owned, by the Corporations. In this sense, DOI is proposing to exchange ANWR oil and gas interests, on an equal value basis, for some lands which are not owned, and in some cases, may never be owned, by the Corporations. For example, 143,344 acres (48 percent) of the Native Lands Group land proposed for exchange is not owned, rather is selected, by the Corporations.

The State of Alaska estimates there are dozens of waterbodies (rivers and lakes) within the areas proposed by the Corporations for exchange for which there has not yet been a navigability decision by BLM. The state asserts ownership to the submerged lands under navigable waters (lakes and streams) by virtue of the Alaska Statehood Act and the Equal Footing Doctrine. A BLM navigability or court decision on these waterbodies is required to determine ownership to the submerged land under navigable waters. Therefore, DOI may have included in the proposed exchange, and paid for, land which is owned by the state.

Another title uncertainty exists with respect to the survey status of the Corporation land. A substantial portion of the total Corporation land proposed for exchange has not yet been surveyed for purposes of patent. Survey status of land has a significant influence upon land title and value. Prior to survey, the amount of land owned by a particular Corporation can only be estimated. Second, the survey will meander (exclude) waterbodies which are owned by the state.

In addition, patented (surveyed) lands are generally considered more valuable in the market place than the unpatented (unsurveyed) lands. Financial institutions in Alaska will generally not allow real estate mortgage loans on unpatented ANCSA lands.

Another consideration is the presence of several hundred federal access easements reserved by the BLM on land conveyed to the Corporations under authority of Section 17(b) of ANCSA. These easements are generally 25 feet or 60 feet in width and may also include numerous one acre sites for public use associated with

access to adjacent public land.

Finally, there appears to have been no consideration during negotiations of the Alaska Land Bank program included in Section 907 of the Alaska National Interest Lands Conservation Act (ANILCA). The Alaska Land Bank program allows DOI, acting through the USFWS, to enter into a written agreement with the Corporations which ensures that the Corporation land would be managed by the Corporation in a manner compatible with the adjoining USFWS land use management plan.

This means that Corporation land included in the Alaska Land Bank program may not be developed unless such development is consistent with the purposes of the applicable USFWS land use plan for refuge management. Most of the Gana-A'Yoo land (56,000 acres) included in the proposed land exchange is entered into the Alaska Land Bank program. However, DOI has negotiated an average \$/acre value for the Gana-A'Yoo land which is approximately 8 1/2 times greater than the DOI fair market appraised average \$/acre value (Figure 1). This is surprising, given that these particular lands are already under the exclusive management control of the USFWS by virtue of their inclusion in the Alaska Land Bank.

12/30/87

FIGURE 1

COMPARISON OF USFWS APPRAISAL VALUES AND THE
DOI NEGOTIATED VALUES FOR CORPORATION LAND

<u>Corporation</u>	<u>Appraised¹ Acreage</u>	<u>Negotiated² Acreage</u>	<u>Appraised³ Value</u>	<u>Negotiated⁴ Value</u>	<u>Appraised \$/Acre</u>	<u>Negotiated \$/Acre</u>
1. Doyon	950,133	220,545	\$60,641,620	\$121,696,139	\$63.82	\$551.8
2. Gana-a 'Yoo	61,745	57,397	\$4,432,945	\$35,031,355	\$71.79	\$610.33
3. Native Lands Group	420,151	298,815	\$67,876,000	\$184,113,203	\$161.56	\$616.14
4. Koniag	164,619	112,564	\$26,763,000	\$77,442,711	\$162.58	\$687.99
5. Old Harbor	97,090	90,355	\$9,882,940	\$45,733,814	\$101.79	\$506.16
6. Akhiok-Kaguyak	190,729	115,947	\$41,036,000	\$75,048,516	\$215.15	\$647.27
TOTAL	1,884,467 ⁵	895,622	\$210,632,505 ⁶	\$539,065,738	\$111.72	\$601.89

¹Acreage totals based upon DOI fair market value appraisal records.

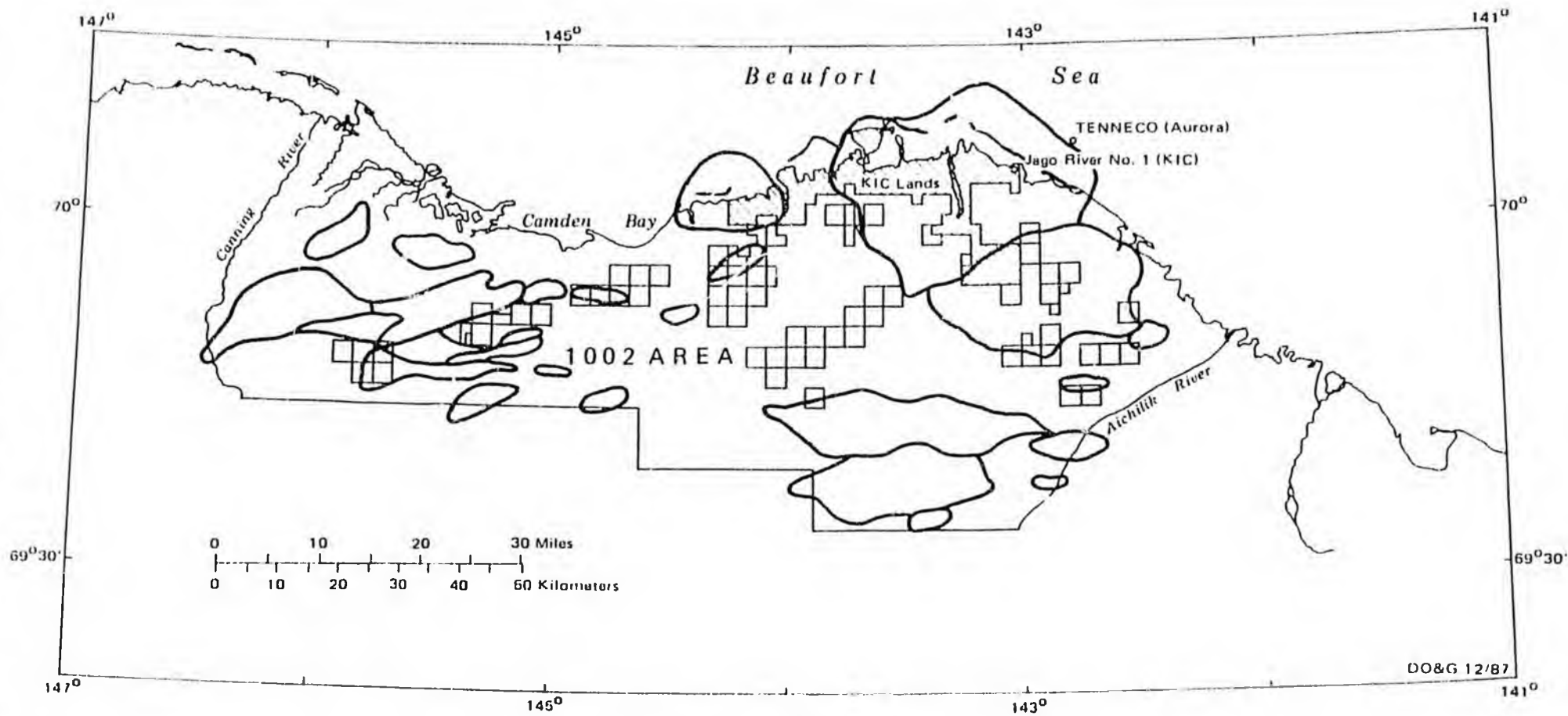
²Acreage totals based on legal descriptions submitted for approval by Corporations to DOI Assistant Secretary.

³Fair market value as determined by USFWS fee appraisers or contract appraisers between 1985 - 1987.

⁴As determined by DOI Assistant Secretary and used as basis of value for Corporation land proposed for ANWR land exchange.

⁵Includes approximately 988,845 acre; that were not included in proposed ANWR land exchange.

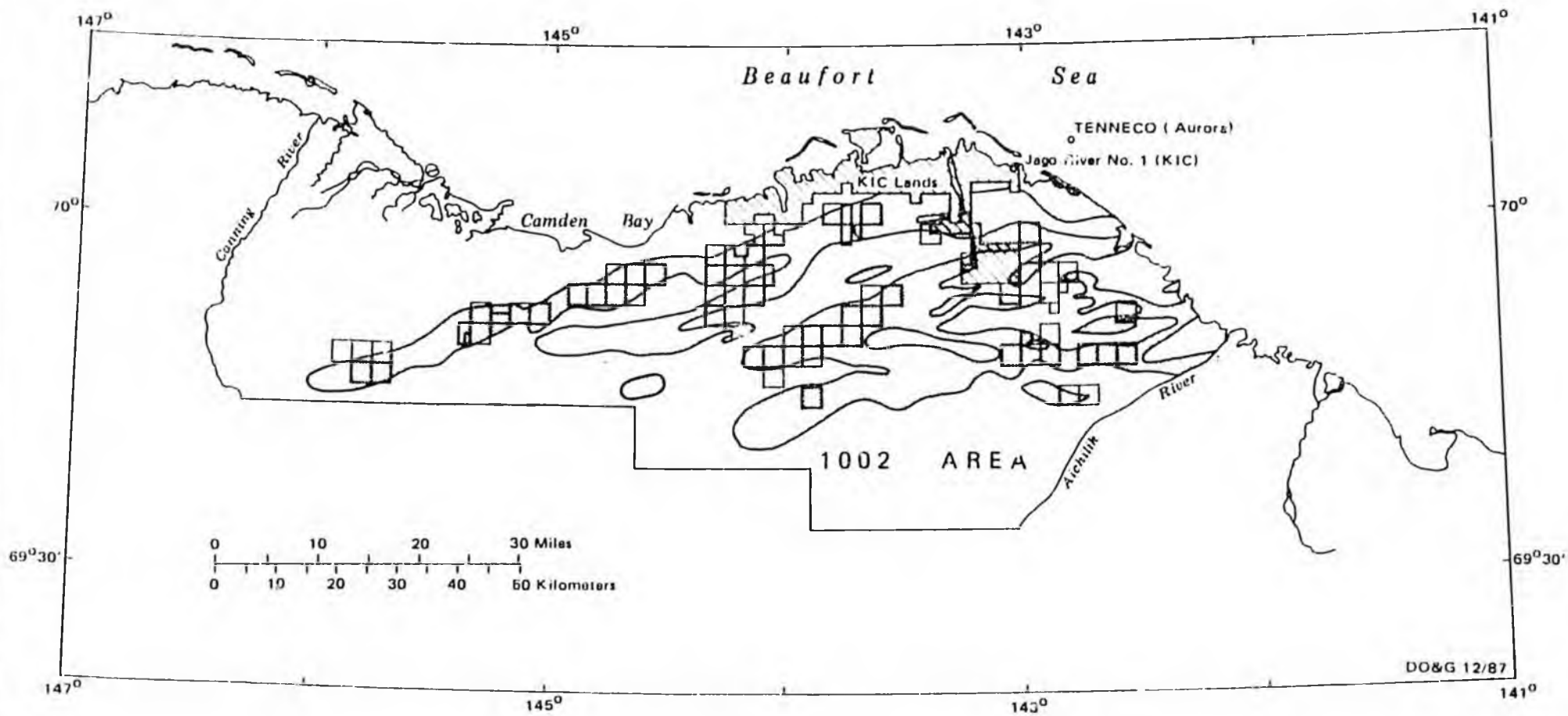
⁶Includes appraised value for the 988,845 acres not included in proposed ANWR land exchange.



PROPOSED LAND EXCHANGES

Department of the Interior Interpretation:

Seismically Mapped Prospects



PROPOSED LAND EXCHANGES

Department of the Interior Interpretation:
Trends of Highly Deformed Mesozoic and Tertiary Rocks

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ALASKA STATE SENATE

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House Resources
May 6, 1988

OIL IMPORT FEE RESOLUTION

Oil Imports:

--In 1985, the United States imported 4.9 million barrels of oil per day, about 30% of our total consumption.

--In 1987, the United States imported almost 7 million barrels of oil per day, nearly 40% of total consumption.

--Experts tell us that oil imports could comprise as much as 50% of the United States' consumption by 1990.

Benefits of a Federal Tax on Imported Oil:

(House Research Memo, 2/7/86)

--estimated federal revenues of \$26 million per day (on projected imports of 3.3 million barrels per day of crude oil and 1.9 million barrels per day of refined products in 1986, at \$5/barrel tax);

--the potential for reducing the federal budget deficit and thereby lowering interest rates;

--a stabilizing effect on the U.S. oil industry and its employment which have been badly bruised under current declines in crude oil prices;

--encouragement of domestic oil exploration and production;

--less likely failure of banks heavily burdened with energy loans;

--enhanced revenues to energy-producing states such as Alaska, Texas, California, Louisiana, and Oklahoma.

Revenue Implications for Alaska:

--If the wellhead price of Alaskan crude could adjust to match the tax increase, for every \$1 increase in wellhead prices, between \$135 million and \$150 million would accrue to the State treasury as a result of increased royalties and severance taxes.

--At current production levels, assuming a \$5/barrel import fee, the State could receive as much as \$750 million a year.

SJR

17

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Federally Managed Conservation
Units in the State
Sponsor: Cognill, Faiks, Jones,
Fahrenkamp

Agency Affected: Office of the Governor
BRU: Office of Management and Budget
Components: Governmental Coordination

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

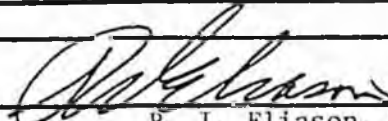
POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Rules Committee Phone: 465-4916

Division: _____ Date: _____

Approved by Commissioner:  Date: 5-6-88

Agency: R. I. Eliason, Chmn

Distribution (by preparer):

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

SJR

24

HOUSE COMMITTEE REPORT

(9)

Date referred: 4/29/87

FURTHER REFERRALS:

DATE: May 7, 1987

The Resources Committee has considered CSSJR 24 (C&RA)

Relating to the establishment of a priority access zone at Unalaska for domestic fisherman and processors.

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 3/18/87
- zero with analysis

SIGNING DO PASS:

SIGNING OTHER RECOMMENDATIONS:

<u>Adelheid Herrmann</u>	Herrmann
<u>Heinrich Springs</u>	Springer
<u>Park Shultz</u>	Shultz
<u>Cliff Davidson</u>	Davidson
<u>[Signature]</u>	Sund
<u>[Signature]</u>	Pearce
<u>[Signature]</u>	
<u>[Signature]</u>	Hoffman
<u>Mike Navarre</u>	Navarre
<u>Sen Cotten</u>	Cotten

Adelheid Herrmann Herrmann
Chairman's signature

ALASKAN JOINT VENTURE FISHERIES, INC.

310 "K" Street
Suite 310
Anchorage, Alaska 99501
(907) 278-5342
Telex: 332471 APANC
Fax: (907) 258-0155

March 11, 1987

The Honorable Arliss Sturgulewski
P.O. Box V
Juneau, AK 99911

Dear Senator Sturgulewski:

With regard to the hearing on your bill No. 6JR24 scheduled for tomorrow (3/12/87), we are enclosing a letter stating our opposition to the proposed 100-mile priority access zone around Dutch Harbor.

Alaskan Joint Venture Fisheries, Inc. is the largest and only joint venture company in Alaska with projected gross revenues in 1987 over \$30 million. Our 15 American fishermen and their vessels, valued at over \$3 million each, do not wish to be discriminated against by drawing lines in the Bering Sea.

I hope our letter sheds some light. We will be testifying at the North Pacific Fishery Management Council meeting next week on this matter. If we can answer any questions, please do not hesitate to call.

Sincerely,

ALASKAN JOINT VENTURE FISHERIES, INC.



Annie Burnham
President

AB:td

Enclosure

ALASKAN JOINT VENTURE FISHERIES, INC.

310 "K" Street
Suite 310
Anchorage, Alaska 99501
(907) 276-5342
Telex: 332471 APANC
Fax: (907) 258-0155

March 4, 1987

Dr. Anthony J. Calio
Director
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION
U.S. Department of Commerce
Herbert C. Hoover Building, Room 5128
14th and Constitution Avenue, NW
Washington, DC 20230

RE: Proposed DAP Priority Access Zone around Dutch Harbor

Dear Dr. Calio:

On the behalf of Alaskan Joint Venture Fisheries, Inc. and the fishermen in our employ, we would like to express our opposition to the proposed establishment of a DAP exclusive access zone around Dutch Harbor. We strongly endorse any and all the arguments made in recent letters addressed to your offices by Westward Trawlers, ProFish International and the North Pacific Fishing Vessel Owners Association and hereby add our voice to the chorus of protest against this discriminatory proposal.

It is agreed that the idea of establishing such an exclusive economic zone has fundamental emotional appeal but with all due respect to the authors, the proposal has little basis in the realities of the current marketplace.

Members of Pacific Seafood Processors Association (PSPA) and the Mayor of Dutch Harbor either claim or infer the following in their proposal:

- 1) The inception of a 100 mile DAP priority zone is imperative in order to guarantee that domestic harvesters deliver their catch to two surimi plants in Dutch Harbor.
- 2) A joint venture company can operate just as profitably outside the peripheries delineated by such a zone.
- 3) Joint Ventures have consistently "taken the money and run", i.e. have left none of their profits behind in the coastal communities of Alaska such as Dutch Harbor.

Dr. Anthony J. Calio
March 4, 1987
Page 2

First, there are fish presently being delivered to a shore-based surimi plant by a joint venture boat. But the processing capacity of the plant is so small that this one boat has "plugged" the plant with only a few deliveries. Thus, after sporadic deliveries it must sit idle while the rest of the JV fleet delivers to the more efficient floating processors with no restraints. The upshot of all this is that it is not economically feasible for a multimillion dollar catcher boat to deliver to a shore-based plant under the current conditions of the fishery, wherein volume and price do not adequately offset the costs of insurance and maintenance of a typical Bering Sea trawler.

But will this surimi plant starve? No--tenders have been converted and are heading towards Dutch Harbor right now. These tenders will receive fish from JV catcher boats for delivery to shore-based plants and taking into account the efficiency and cost effectiveness of such an arrangement, one might conclude that this is precisely the investment these plants should have made long ago.

Second, contrary to the contentions of the authors of this proposal, joint venture companies cannot continue to run a profitable operation if access to these grounds is denied. Joint venture operators currently employ over 120 catcher boats worth from one to three million dollars each. Many of them have only just begun to make a profit after the king crab demise of 1980, and losing these grounds with the concomitant loss of their JV markets would be the coup de grace for at least 100 of them. JV managers would lose over 10 million dollars in revenues and JV boat operators and crew would lose well over 100 million dollars of potential earnings. The grounds within this 100 mile circle are that productive and we absolutely cannot afford to lose access to them, especially when it has already been demonstrated that these shore-based plants can be adequately supplied with raw product without the establishment of this or any other exclusive zone.

Third, the authors' contentions that JV operations have done nothing for Alaska's coastal communities is completely invalid. Alaskan Joint Venture Fisheries owns and manages four boats that in 1986 alone left an average of \$200,000 dollars each behind in Dutch Harbor. These monies represent fuel costs, moorage fees, groceries, parts, airline tickets and the myriad other expenses generated by such a fishing operation. In one way or another each and every citizen of Dutch Harbor was benefited by this money. Please take note that there are over 100 of these catcher boats, each leaving roughly this same amount behind both in Dutch Harbor and Kodiak.

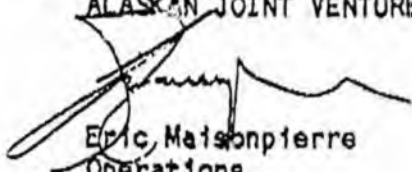
Dr. Anthony J. Calio
March 4, 1987
Page 3

In short, we cannot let an overzealous plan prematurely kill off the goose that laid the golden egg. Joint Venture operators argue for the natural evolution of a fleet of catchers into a fleet of domestic catcher/processors and they are busy building these boats now with the all-important capital generated from JV operations. We feel these domestic catcher/processors are the wave of the future and we cannot afford to stifle such a development, especially with artificial constraints such as exclusive access zones and all their discriminatory implications.

In closing, we would like to reiterate our vehement opposition to any and all legislated solutions to economic problems, problems whose solutions are better left to the marketplace.

Sincerely,

ALASKAN JOINT VENTURE FISHERIES, INC.



Eric Maissonpierre
Operations

EM:sh

cc: Senator Brock Adams
Senator John Breaux
Senator Dan Evans
Senator Frank Murkowski
Senator Ted Steven
Congressman Don Bonker
Congressman Rod Chandler
Congressman Norman Dicks
Congressman Thomas Foley
Congressman Mike Lowry
Congressman John Miller
Congressman Sid Morrison
Congressman Al Swift
Congressman Don Young
William Evans, NMFS
Robert McVey, NMFS
Rolland Schmitten, NMFS
James Campbell, NPFMC

No. 130

STATE OF ALASKA 1987 LEGISLATIVE SESSION

FISCAL NOTE SENATE

BILL VERSION: CSSJR 24 (C&RA)
PUBLISH DATE: 3/18/87

REQUEST: _____

Revision Date: _____

Agency Affected: Fish and Game

Title: Relating to the establishment of a domestic fishery zone for

BRU: Commercial Fisheries

Sponsor: Sturqulewski Unalaska

Components: _____

Requestor: C&RA

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0					
TRAVEL	0					
CONTRACTUAL	0					
SUPPLIES	0					
EQUIPMENT	0					
LAND & STRUCTURES	0					
GRANTS, CLAIMS	0					
MISCELLANEOUS	0					
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS

Prepared by: Roland Shanks
Division: Commissioner's Office

Phone: 465-4100
Date: 3/18/87

Approved by Commissioner: [Signature]
Agency: Fish and Game

Date: 3/18/87

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

Alaska State Legislature



SENATOR
ARLISS STURCULEWSKI

Chairman, Senate Community and Regional Affairs Committee
Vice-Chairman, Senate Judiciary Committee
Member, Senate Resources Committee

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

White in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

March 13, 1987

James Campbell, Chairman
North Pacific Fishery Management Council
Box 103136
Anchorage, AK 99510

Dear Mr. Campbell:

The Senate Community and Regional Affairs Committee held a public hearing on March 12 regarding SJR 24 "Relating to the establishment of a domestic fishery zone for Unalaska." The resolution, which I sponsored and which was co-sponsored by nine other senators, urges the North Pacific Fishery Management Council to create a DAP Priority Access Zone around Unalaska.

The resolution received support from Paul Fuhs, Mayor of Unalaska; Glenn Boledovich, City Councilman from Unalaska; Ericka Tritremmel, City Administrator from Akutan; David McGlashan, President of the Akutan Village Corporation; and Rick Lauber of the Pacific Seafood Processors Association. There was no oral testimony in opposition of the resolution; although a letter was received from the Alaskan Joint Venture Fisheries, Inc. in opposition.

There were some technical amendments made to the resolution and I have enclosed a copy for your information.

Sincerely yours,

A handwritten signature in cursive script that reads "Arliss Sturgulewski".

Senator Arliss Sturgulewski
Senate District F

Enclosure

cc: James Branson

North Pacific Fishery Management Council

James O. Campbell, Chairman
Jim H. Branson, Executive Director

411 West 4th Avenue
Anchorage, Alaska 99510



Mailing Address: P.O. Box 103136
Anchorage, Alaska 99510

Telephone: (907) 274-4563
FTS 271-4064

March 27, 1987

Senator Arliss Sturgulewski
P.O. Box V
Juneau, Alaska 99811

Dear Arliss:

Thank you for your letter of March 13, 1987, regarding SJR 24. The Council reviewed the proposals for a DAP (domestic annual processing) priority zone within 100 miles of Unalaska Island at its meeting last week and voted to send out the original proposal and several alternatives for public review. The "package" to be released for public comment will have six alternatives.

Alternative 1: Maintain the status quo (no area restrictions on foreign processors receiving fish from U.S. fishermen).

Alternative 2: Establish a year-round closure for joint venture and foreign directed fishing in the area bounded by 52°30' and 55°N latitude, between 164° and 169°W longitude. Fishing within that area would be allowed only for those fishing for domestic processors.

Alternative 3: Establish a year-round closure for foreign directed fishing in the area bounded by 52°30' and 55°N latitude, between 164° and 169°W longitude. Fishing within that area would be allowed for those vessels delivering to domestic processors or for those delivering to foreign processors lying outside the designated area.

Alternative 4: Establish seasonal area closures within the area described in Alternatives 2 and 3.

Alternative 5: Establish a fee structure for all foreign processors that receive joint venture fish.

Alternative 6: Spread out joint venture allocations over a number of openings within the year.

The Council will decide on a course of action at its May 20-22 meeting after reviewing the public comments.

We appreciate your interest in this matter. Ron Miller of the Council staff has been working with Frank Homan from your office and will keep him informed of further Council action.

Sincerely,

James O. Campbell
Chairman

Frank for file

OPINION 100 Mile Limit

Currently the proposed 100 mile limit around Unalaska/Dutch Harbor (U DH) has been the focus of much comment and controversy. Various groups of Joint Venture (JV) fishermen have begun campaigns to lobby against the proposal.

JV fishermen feel threatened and in some cases are reacting as if supporters of the 100 mile limit are out to eliminate U.S. trawlers rather than foreign processors. First and foremost it should be made clear that any vessel owner who is now dependent on JVs has done so by free choice. Secondly, they have done so with the knowledge that JVs were initiated as only a phase or "stepping stone" on the road to full U.S. involvement in the fishery.

There is no historical intent or goal to stop Americanization half way. The phase out of foreign harvesting includes processing as well as fishing. The JV was only part of a plan to phase out foreign fishery and processing fleets within the 200 mile fishery conservation zone.

Currently some JV fishermen are forming organizations to lobby for the preservation of JVs and against the 100 mile zone. Somehow it seems JV fishermen have forgotten that JVs were not intended to be permanent. In some cases they are even contributing large sums of money to preserve the JV and consequently inhibit and delay the entry of the U.S. processing industry into this vast fishery.

Now that they have their piece of the pie (and in some cases it is a very profit-

able piece) they are working in opposition to the very same process that created an avenue for their entry into the Bering Sea and North Pacific bottomfishery. This strikes me as rather self serving and I hope that the North Pacific Fishery Management Council (NPFMC) and Dept. of Commerce treat their lobbying efforts as such.

I would think they would be grateful for the economic boon they have received from the Americanization process. They should therefore support others trying to utilize Americanization and not lobby to the detriment of U.S. processors. Their money would be better spent insuring they will have a domestic market as Americanization moves on to include U.S. processors.

The NPFMC should make it clear that JV fishermen must begin to seek domestic markets. The phase out of foreign processing is as sure as the phase out of foreign fishing. If a trawler refuses to accept this then he has nobody but himself to blame if he is left without a market.

There is not justification to be made for stopping Americanization now that U.S. fishermen are harvesting the fish. The 100 mile limit around U DH is a major step for the entry of the U.S. processing industry into the same Americanization process that JV fishermen have benefited from. The 100 mile limit leaves the vast majority of the Bering Sea open for continued JVs and yet it signals support and security for those seeking to invest in the U.S. processing industry.



by the wave.

March 3, 1987

Governor Steve Cowper
P.O. Box A
Juneau, AK 99811

Dear Governor Cowper:

We were shocked to hear that the NMFS Alaska Regional Director recently recommended overturning the Council's decision to reserve the pollock resource in Shelikoff Strait for the domestic industry. We are requesting an explanation and documentation of how the Regional Director came to his decision. We attended the last Council meeting and clearly heard him say that the Regional office would take no action until new data could be presented to the Council at the March 16 meeting.

In addition, we cannot explain why the Regional Director is one of the leading opponents of our proposal for a 100 mile Domestic Fisheries Zone around Dutch Harbor. We would expect that NMFS would provide a leadership role or at least remain neutral towards efforts to Americanize the fisheries within the ECZ. There are enough enemies of Americanization already.

I refer you to the attached letter which clearly spells out the plan of a new organization, the American High Seas Fisheries Association (AHSFA) to thwart the intent of the Magnuson Act to realize full domestic utilization of the fishery resources including processing and transportation.

In that letter we finally see a forthright statement of some of the Joint Venture operator's goal of "preservation of this method or selling our harvest." The letter strips away their pretensions of claiming that Joint Ventures are a transitional phase in the Americanization process. They want to stop this process dead in its tracks at the point where they are cut in but everyone else is cut out. And they are proposing to assess themselves \$15,000.00 per boat to accomplish this.

Two of the main targets they list are the 100 mile domestic zone around Dutch harbor and reopening the Gulf of Alaska (including Shelikoff Strait) to Joint Ventures. If they can't attain their goals through defeating these proposals they will seek to accomplish them through reflagging foreign processing vessels. They state: "Without the Tenyo Maru where are we? Do we care what flag flies over the stern? Or Who owns her?"

(2)

They may not care, but we do. It is the liveliness of our coastal communities and many other Americans entitled to benefit from the fishery resources in the FCZ.

It is interesting to note that on page 2 they discuss whether they should use their Association to increase tonnages allocated to the Japanese at the expense of other countries, or to join forces with the Koreans against the Americans. The author recommends the latter.

Perhaps their most dangerous goal is the increase of total allowable catch from 2.0 million metric tons to 2.4 million metric tons to 2.4 million metric tons a year. At a time when fishermen are already expressing concern about overcapitalization of the fleet and over-exploitation of the resource, this policy could be disastrous. This idea was introduced at the last council meeting by the NMFS Alaska Regional Director. Have we learned nothing from the destruction of the fish stocks in the Gulf of Mexico and the Atlantic Ocean?

And for what? So that there can be an "increase of Pollock tonnage available for Joint Venture operations?" What national policy could possibly be served by such a move? Not only are we losing the value of the fish to American industry by giving it to the foreign processors, but many of these fish are then imported back into the U.S. adding to our massive trade deficit, which last year in fisheries products amounted to \$5.6 billion, up 14% from the year before.

This is a true moment in history which will affect our future for many years to come. ANY assistance you could give to our proposals before the Council to Americanize the fishing/processing industry in the FCZ, would be very important at this time.

I hope you do not feel I have spoken too strongly in this letter. We are very concerned about the situation we are developing and it is our responsibility to safeguard the future prosperity of our communities.

Sincerely,

Paul Fuhs
Mayor of Unalaska/Dutch Harbor
President, Southwest Alaska Municipal Conference

cc: NPFMC Members
Dr. Tony Callio
Senator Ernest Hollings
Senator Ted Stevens
Senator Frank Murkowski
Representative Don Young
Governor Steve Cowper

WESTWARD TRAWLERS, INC.

(3)

715 N.E. Northlake Way Seattle, Washington 98105

phone: 206-547-6940

16 February 1987

To: All Westward catcher-boats & their owners

From: Hugh Reilly

Re: American High Seas Fisheries Association

Enclosed you will each find copies of organizational papers and membership application for the American High Seas Fisheries Association—which is presently in formation.

The Association was conceived late last year, principally by a number of the boats fishing in the Nissui ventures. The purpose is stated in the Articles of Incorporation (Article III):

" . . . promotion of the interests of owners and operators of commercial fishing vessels that deliver fish at sea in the North Pacific Ocean and Bering Sea."

You have all doubtless gotten wind of this effort, either in Seattle recently or on the fishing grounds. A careful review of the enclosures will be somewhat illuminating; for example, in the BYLAWS:

Article I - Members

1.1 Qualifications. Membership in the association is limited to persons who are actively engaged as vessel owners or vessel operators and who receive 75% of their revenues from deliveries of fish to Japanese processors at sea in the North Pacific Ocean and the Bering Sea.

Article II - Assessments.

2.1 Assessments. The Board of Directors shall levy assessments to be charged against each member to provide necessary operating capital for the association. An annual assessment of \$1.00 per metric ton of groundfish delivered by each vessel, up to a maximum of \$15,000 per vessel, shall be levied against each member.

Frank Bohannon, Wilhelm Jensen and others in the Nissui fleet can give you background on what has led to the formation of the organization; and they can give you their ideas on what the Association should try to accomplish, and perhaps how it should go about it.

. . . cont'd

4

But it will ultimately be up to the membership and their Board of Directors to direct the Association. That process will begin at the organizational meeting of the Association in Seattle on March 9th (see enclosed Notice).

From our point of view, the Association is an unfortunate necessity for those of us (Owners, Captains, & crews) who derive our living from these joint fishing operations with the Japanese. As a group, we have a significant financial stake in the preservation of this method of selling our harvest, but our opponents are numerous . . . and increasingly effective. We now need to pull up a fight to defend our interests, and it takes unity and money to win fights in fisheries politics.

Principal issues facing the membership and its Board of Directors in March will be organizational and philosophical in nature:

1) Should AHSFA work in concert with ventures with other countries (i.e. Korea) to preserve and extend the lifespan of ventures with both countries?

OR

2) Should AHSFA work to expand the tonnage of 'Japanese' boats by reducing the tonnage of other nations?

3) Should AHSFA pursue a 'high-visibility' role in the political arena (like NEFVOA, FONA, AFTA, Alaska Driggers (ADA), etc.)?

OR

4) Should AHSFA keep overhead, staff, and "imagery" costs at a minimum, using existing potential funds (at \$15,000/boat we are talking some serious money!), at least initially, to get things accomplished using task-specific staff (probably part-time), working with and through existing organizations (i.e. NEFVOA, ADA, JFA, etc.), scientific specialists (consultants), public relations firms, and political professionals (i.e. lawyers/lobbyists)?

Personally, I favor alternatives 1) and 4); ultimately, these questions are for the membership/Board to decide. And I would like to see development of a similar association of 'Korean' boats—with which AHSFA can collaborate on funding common needs and influencing common issues.

Some of the key issues that face our particular segment of the trawl industry, and which must be strongly and clearly addressed during 1987 are:

. . . cont'd

16 February 1987
The Westward Fleet
page -3-

- I. The 100 mile closure proposed around Dutch Harbor
- II. Pollock rod stripping operations (both Korean & Japanese)
- III. Reopening the Gulf of Alaska to J/V's
- IV. Reflagging of foreign processors (Without the TENYO MARU, where are we? Do we care what flag flies over the stern? or who owns her?)
- V. The possible increase of Bering Sea/Alouitians total allowable harvest (all species) from 2.0 million tons to 2.4 million tons . . . and with that, increase of Pollock tonnage available for J/V operations.

Again, we see the Association as an unfortunate necessity, one that will require considerable commitment of our monies, our time, and our influence. We encourage all of you to give membership in the Association the most serious consideration.

Representatives from each of the Westward catcher-boats should be coming home the end of the month and should be prepared to deal with this Association matter in behalf of everyone involved with each vessel.

We hope that everyone will be supporting the Association and will be represented at the organizational meeting on March 9th in Seattle. See the first four pages of the enclosed—which need to be filled out for membership.

copies to:

- CALIFORNIA HORIZON
- HALF MOON BAY
- SUNSET BAY
- MARGARET LYN
- HAZEL LORRAINE I
- SHARON LORRAINE
- VIKING
- SEAWOLF
- OCEAN DYNASTY
- WESTWARD I
- GREAT PACIFIC
- VAERDAL

also to:

- Dave Harvilla
- Bob Dooley
- Bill Lock
- Terry Cosgrove
- "
- Trefon Angason
- Phil Werdal
- Steve Huddleston

①

March 3, 1987

Governor Steve Cowper
P.O. Box A
Juneau, AK 99811

Dear Governor Cowper:

We were shocked to hear that the NMFS Alaska Regional Director recently recommended overturning the Council's decision to reserve the pollock resource in Shelikoff Strait for the domestic industry. We are requesting an explanation and documentation of how the Regional Director came to his decision. We attended the last Council meeting and clearly heard him say that the Regional office would take no action until new data could be presented to the Council at the March 16 meeting.

In addition, we cannot explain why the Regional Director is one of the leading opponents of our proposal for a 100 mile Domestic Fisheries Zone around Dutch Harbor. We would expect that NMFS would provide a leadership role or at least remain neutral towards efforts to Americanize the fisheries within the ECZ. There are enough enemies of Americanization already.

I refer you to the attached letter which clearly spells out the plan of a new organization, the American High Seas Fisheries Association (AHSFA) to thwart the intent of the Magnuson Act to realize full domestic utilization of the fishery resources including processing and transportation.

In that letter we finally see a forthright statement of some of the Joint Venture operator's goal of "preservation of this method or selling our harvest." The letter strips away their pretensions of claiming that Joint Ventures are a transitional phase in the Americanization process. They want to stop this process dead in its tracks at the point where they are cut in but everyone else is cut out. And they are proposing to assess themselves \$15,000.00 per boat to accomplish this.

Two of the main targets they list are the 100 mile domestic zone around Dutch harbor and reopening the Gulf of Alaska (including Shelikoff Strait) to Joint Ventures. If they can't attain their goals through defeating these proposals they will seek to accomplish them through reflagging foreign processing vessels. They state: "Without the Tenyo Maru where are we? Do we care what flag flies over the stern? Or Who owns her?"

They may not care, but we do. It is the livelihood of our coastal communities and many other Americans entitled to benefit from the fishery resources in the FCZ. (2)

It is interesting to note that on page 2 they discuss whether they should use their Association to increase tonnages allocated to the Japanese at the expense of other countries, or to join forces with the Koreans against the Americans. The author recommends the latter.

Perhaps their most dangerous goal is the increase of total allowable catch from 2.0 million metric tons to 2.4 million metric tons to 2.4 million metric tons a year. At a time when fishermen are already expressing concern about overcapitalization of the fleet and over-exploitation of the resource, this policy could be disastrous. This idea was introduced at the last council meeting by the NMFS Alaska Regional Director. Have we learned nothing from the destruction of the fish stocks in the Gulf of Mexico and the Atlantic Ocean?

And for what? So that there can be an "increase of Pollock tonnage available for Joint Venture operations?" What national policy could possibly be served by such a move? Not only are we losing the value of the fish to American industry by giving it to the foreign processors, but many of these fish are then imported back into the U.S. adding to our massive trade deficit, which last year in fisheries products amounted to \$5.6 billion, up 14% from the year before.

This is a true moment in history which will affect our future for many years to come. Any assistance you could give to our proposals before the Council to Americanize the fishing/processing industry in the FCZ, would be very important at this time.

I hope you do not feel I have spoken too strongly in this letter. We are very concerned about the situation we see developing and it is our responsibility to safeguard the future prosperity of our communities.

Sincerely,

Paul Fuhs
Mayor of Unalaska/Dutch Harbor
President, Southwest Alaska Municipal Conference

cc: NPFMC Members
Dr. Tony Callio
Senator Ernest Hollings
Senator Ted Stevens
Senator Frank Murkowski
Representative Don Young
Governor Steve Cowper

(3)

WESTWARD TRAWLERS, INC.

715 N.E. Northlake Way Seattle, Washington 98105

phone: 306-547-6940

16 February 1987

To: All Westward catcher-boats & their owners

From: Hugh Reilly

Re: American High Seas Fisheries Association

Enclosed you will each find copies of organizational papers and membership application for the American High Seas Fisheries Association—which is presently in formation.

The Association was conceived late last year, principally by a number of the boats fishing in the Nissui ventures. The purpose is stated in the Articles of Incorporation (Article III):

" . . . promotion of the interests of owners and operators of commercial fishing vessels that deliver fish at sea in the North Pacific Ocean and Bering Sea."

You have all doubtless gotten wind of this effort, either in Seattle recently or on the fishing grounds. A careful review of the enclosures will be somewhat illuminating; for example, in the BYLAWS:

Article I - Members

1.1 Qualifications. Membership in the association is limited to persons who are actively engaged as vessel owners or vessel operators and who receive 75% of their revenues from deliveries of fish to Japanese processors at sea in the North Pacific Ocean and the Bering Sea.

Article II - Assessments.

2.1 Assessments. The Board of Directors shall levy assessments to be charged against each member to provide necessary operating capital for the association. An annual assessment of \$1.00 per metric ton of groundfish delivered by each vessel, up to a maximum of \$15,000 per vessel, shall be levied against each member.

Frank Bohannon, Wilhelm Jensen and others in the Nissui fleet can give you background on what has led to the formation of the organization; and they can give you their ideas on what the Association should try to accomplish, and perhaps how it should go about it.

cont'd

(4)

But it will ultimately be up to the membership and their Board of Directors to direct the Association. That process will begin at the organizational meeting of the Association in Seattle on March 9th (see enclosed Notice).

From our point of view, the Association is an unfortunate necessity for those of us (Owners, Captains, & crews) who derive our living from these joint fishing operations with the Japanese. As a group, we have a significant financial stake in the preservation of this method of selling our harvest, but our opponents are numerous, . . . and increasingly effective. We now need to put up a fight to defend our interests, and it takes unity and money to win fights in fisheries politics.

Principal issues facing the membership and its Board of Directors in March will be organizational and philosophical in nature:

1) Should AHSFA work in concert with ventures with other countries (i.e. Korea) to preserve and extend the lifespan of ventures with both countries?

OR

2) Should AHSFA work to expand the tonnage of 'Japanese' boats by reducing the tonnage of other nations?

3) Should AHSFA pursue a 'high-visibility' role in the political arena (like NPFVOA, FONA, AFTA, Alaska Driggers (ADA), etc.)?

OR

4) Should AHSFA keep overhead, staff, and "imagery" costs at a minimum, using only substantial funds (at \$15,000/boat we are talking some serious money!), at least initially, to get things accomplished using task-specific staff (probably part-time), working with and through existing organizations (i.e. NPFVOA, ADA, JFA, etc.), scientific specialists (consultants), public relations firms, and political professionals (i.e. lawyers/lobbyists)?

Personally, I favor alternatives 1) and 4); ultimately, these questions are for the membership/Board to decide. And I would like to see development of a similar association of 'Korean' boats—with which AHSFA can collaborate on funding common needs and influencing common issues.

Some of the key issues that face our particular segment of the trawl industry, and which must be strongly and clearly addressed during 1987 are:

. . . cont'd

(5)

16 February 1987
The Westward Fleet
page -3-

- I. The 100 mile closure proposed around Dutch Harbor
- II. Pollock seed stripping operations (both Korean & Japanese)
- III. Reopening the Gulf of Alaska to J/V's
- IV. Reflagging of foreign processors (without the TENYO MARU, where are we? Do we care what flag flies over the stern? or who owns her?)
- V. The possible increase of Bering Sea/Aleutians total allowable harvest (all species) from 2.0 million tons to 2.4 million tons . . . and with that, increase of Pollock tonnage available for J/V operations.

Again, we see the Association as an unfortunate necessity, one that will require considerable commitment of our monies, our time, and our influence. We encourage all of you to give membership in the Association the most serious consideration.

Representatives from each of the Westward catcher-boats should be coming home the end of the month and should be prepared to deal with this Association matter in behalf of everyone involved with each vessel.

We hope that everyone will be supporting the Association and will be represented at the organizational meeting on March 9th in Seattle. See the first four pages of the enclosed—which need to be filled out for membership.

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Vol. 10, No. 2, February 1987 \$1.00



100-Mile Limited Access Proposed for Dutch Harbor

by John van Amerongen

Paul Fuhs, mayor of Unalaska, visited Seattle in mid-January, stumping for a proposal that would establish a 100-mile DAP priority access zone around Dutch Harbor. If passed by the Council in May and approved by the Secretary of Commerce, the plan would eliminate all joint-venture fishing for cod and pollock within the area, which includes the popular J-V fall fishing grounds north of Unimak Pass.

To Fuhs, who also presides over the Southwest Municipal Conference, it's a down-home Alaskan issue.

"Ten years ago," Fuhs wrote in the proposal's introduction, "the 200-mile limit was signed by President Ford. Many people in Alaska eagerly anticipated the new groundfish prosperity that we all thought was just around the corner.

"None of us would have believed back then that we'd still be

waiting ten years later for the fish to come ashore. But we are still waiting, impatiently.

"After all, Dutch Harbor and Akutan are the major fish processing towns on the Bering Sea coast. There should be many thousands of tons of pollock processed ashore by now. But there aren't.

"We already have two large plants converted for pollock processing in Unalaska-Dutch Harbor. But they can't buy enough pollock to operate steadily. American trawlers prefer delivering to joint-venture mother-ships, instead.

"That," wrote Fuhs, "doesn't do our town any good."

"Our objective is to encourage American druggers to deliver to domestic processors in Unalaska and Akutan or to process their catches at sea aboard vessels of the United States." Winning priority access for domestic processors would accomplish this, Fuhs argued. "Their advantage will be Unalaska's advantage," he

wrote. "Their prosperity will be Unalaska's, too."

The proposal will face its first test when the North Pacific Council conducts a screening of proposed groundfish plan amendments January 21 in Anchorage. Prior to that meeting, however, the Council held a DAP workgroup session in Seattle to discuss the priority access idea and any others that might speed the "domestication" of the groundfish resource.

Workgroup member Bart Eaton was ready to extend the prosperity to the Trident plant and the community in Akutan, as well. Selling pollock to foreign processors for 6 cents a pound was wasting too much of the product's potential value, Eaton said.

A problem exists, he argued, having "two systems [domestic and foreign] trying to develop on a finite resource."

Not only could the continued competition create "a lot of catching capacity that's not going to

have a market," Eaton said, but joint-venture activity would also affect the catch-per-unit effort of DAP operations.

"If joint ventures are discriminated against [by the 100-mile zone], so be it," said Eaton. "It's a free choice. It's time to close that system."

But while the proposal may be getting a lot of support from processors and residents of Akutan and Unalaska, it didn't sit so well with the other fishermen and joint-venture operators who attended a workgroup meeting at the Northwest and Alaska Fisheries Center January 13.

The closest thing to support came from Ted Evans, executive director of the Alaska Factory Trawlers Association. Evans said the spirit of the Dutch Harbor proposal was "dear to our hearts." Noting the "substantial strides" taken by the factory trawler industry in the last two years, Evans nevertheless registered disappointment that Amer-

continued on page 11

PRIORITY ACCESS

continued from front cover

canization has lagged on the processing side.

"We seem to be treating foreign processors on par with domestics," Evans said.

Speaking for the U.S.-owned floating processors, Evans said, "We too have had difficulty getting J-Vs to deliver to those vessels. One company went out and built its own (catcher) vessels."

Building one's own catcher fleet is "one very obvious option," as Evans put it, not only for operators of floating processors, but for shore plants as well. And while joint venture fishermen may now agree that processors should get into the fishing business, Evans, like Eaton, warned that a shakeout could leave some J-V fishermen without markets as their season be-

comes inevitably shorter and shorter.

Forcing processors to build catcher vessels, Evans said, "may lead to substantial overcapitalization — the short-term solution may create a longterm problem."

Despite his sympathy for the current problems in Dutch Harbor and Akutan, though, Evans wasn't ready to stand shoulder to shoulder with Fuhs and Eaton on the 100-mile boundary.

"I'm not sure we can favor this as a specific remedy," said Evans. "We would like to explore a full range of proposals that could benefit the domestic industry."

While the Fuhs plan may have been dear to the hearts of the factory-trawlers, it was far from the minds of joint-venture representatives attending the January

meeting.

"Pure economics" is how Alaska Joint Venture Fisheries spokesman Annie Burnham described the realities of Dutch Harbor's delivery problems. Noting that the Great Land plant "surely paid more" for pollock deliveries than joint-venture processors last year, Burnham said it was "not nearly enough to provide incentives" to run to town.

"Joint ventures," she said, "are a much better market for fishermen with substantial investments in their vessels."

A 100-mile zone, said Burnham, won't solve the problem, and she feared such a zone would establish "a dangerous precedent when full [domestic] utilization is accomplished." Said Burnham, "It puts one U.S. fisherman over another."

Wally Pereyra echoed Burnham's sentiments, claiming the shoreside contracts "are not

economically acceptable, for whatever reason." Acceptability, he said, was a function not only of price, but the distance fishermen had to travel and the stability of the market, as well. Speaking not only as a ProFish International joint-venture manager, but as a partner in a \$25-million domestic surimi catcher-processor now under construction, Pereyra noted that a 100-mile J-V exclusion "may force an American fishermen to get into a contract he wouldn't otherwise get into. I have some problems with that concept."

Pereyra also saw problems with the lack of available processing capacity in Dutch Harbor. "Who's going to take the fish?" asked Pereyra, assuming many of the J-V catchers were forced to deliver in town.

"These guys are left to the wolves," he said, adding in his imitation of a plugged processor,

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Hugh Reilly, manager of Westward Trawlers, a firm handling joint-ventures between U.S. druggers and Taiyo Fisheries, admitted the Fuhs proposal had "instinctive appeal," but said it had "no correlation to the problems of shore plants."

Reilly said there was "a lot of grief in everybody's heart at the failure of the Great Land plant," but there was no reason "to lay it at the feet of joint-venture boats."

"U.S. fishermen have no such obligation..." Reilly said; "they did not build that plant."

Shore-based deliveries of pollock brought \$14 a pound in Hokkaido last year, Reilly noted. The fish now being delivered to Dutch Harbor are bringing \$.08 a pound. "That's an economic problem," he said.

"The price is up, as it should be," he continued, "but it's a question of freight." Transporting fish to Dutch Harbor, he said, "is a very expensive proposition for a \$3-4-million trawler with...winches...bells and whistles. It would be much cheaper on a \$700,000 salmon tender."

Another point to consider, Reilly said, was that only 10 to 25 percent of the joint-venture fleet could safely deliver fish to shore, given the stability requirements for bringing fish aboard versus passing cod ends.

Getting back to the idea of tenders, Reilly noted that Alyeska Seafoods intends to use large refrigerated tenders to haul pol-



lock from Westward Trawlers' joint ventures back to their new surimi plant in Unalaska. The Taiyo Fishery Company of Japan is not only a joint-venture partner of Westward Trawlers, but partners with Wards Cove in the Alyeska plant.

The subject of tenders came up once again when Pereyra and other joint-venture operators offered processors a counter-proposal to the 100-mile zone.

Pereyra suggested that ProFish

might "voluntarily agree to deliver fish to any [domestic] processor that wants to put a carrier where we are operating...a priority delivery...before delivery to J-V processors."

"We have the capacity to do that," Pereyra said, "It would augment our operations and we would welcome that."

Other J-V reps were quick to seize the idea.

"We are going to do that...with the Alyeska plant," said West-

ward's Hugh Reilly.

"We could subscribe to something like this," said Bert Larkins, general manager of Marine Resources. "With lead time we could overcontract, if there was a 500- to 1,000-ton market."

"It enhances a J-V operation," said Alaska Joint Ventures' Annie Burnham. "After roe season...it would enable us to keep catchers contracted...very viable...it could be worked out."

The counter-proposal gathered

momentum so quickly, it looked as though it might steamroll right over Fuhs and Eaton before Councilman John Peterson could throw a wedge under it.

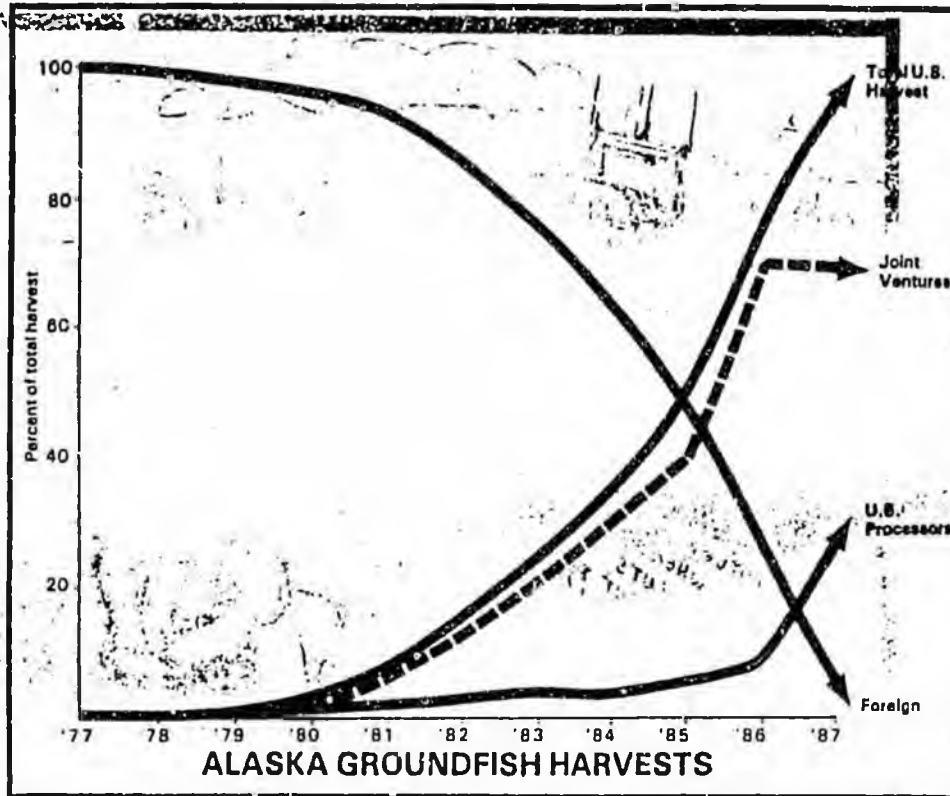
"You're talking about an agreement between processors and fishermen," said Peterson. "We're only hearing one side at this point."

"The thing is," he continued, "that it involves substantial capital investment for a processor to build tenders, and adds on a layer of costs."

"I don't know if they could continue to operate," he said. "Maybe that's the purpose of this."

Al Burch, president of Alaska Dragger's Association, pointed out that "all transition is expensive," noting that the cost of converting his two vessels, the *Dawn* and *Dusk*, was several times the initial investment. He suggested that processors could convert mud boats to tenders a lot easier than they could convert them to trawlers.

The workgroup concluded with two proposals on the table, one of them Fuhs' 100-mile zone, the other, an offer by joint ventures operators to sell fish to domestic tenders. It didn't take a ouija board to figure out who supported what. Joint venture operators didn't want their operations pushed out of Unimak Pass, and domestic processors didn't think the option to buy fish at sea was such a new and wonderful con-



cept.

Going into it, Fuhs knew the going would be tough. But he really didn't want to come down to a battle between domestic processors and U.S. fishermen.

"There's plenty of this for all of us, and we need to work together," he said. "Division plays right into the hands of the people who are taking home almost all the marbles."

"Alaskans are stuck with the

crumbs," Fuhs said. "The people who already have a lot of money have a lot of money to fight it."

"Still," he said, "there's something about communities and towns. It's hard for people to take a shot at us. We want everybody to do well, including the fishermen."

The down-home pitch may have bombed with joint-venture interests in Seattle, but it has already won Fuhs and domestic processors an

influential friend from South Carolina. On December 6, Ernest Hollings, ranking Democrat and Chairman of the Senate Commerce Committee, addressed a letter to the North Pacific Council.

"I understand," Hollings wrote, "that a serious situation exists for American shore-based cod and pollock processors in Alaska, especially in Dutch Harbor, due to the unavailability of harvesting capacity. Plant capacity has been idled because United States processors are unable to contract with harvesting vessels."

"...I would hope there is a way to enable these shore-based processors to continue the development of the domestic United States fishing industry," Hollings concluded, "and would appreciate hearing the Council's views on means to aid them in this important endeavor."

Whether the Council can act to solve the domestic delivery problem before it takes care of itself is a key question. Given the frantic level of conversion and even new-construction activity on the J-V side, the length of the J-V season is bound to compress. When that happens, those that can will have to deliver to domestic processors, and every delivery will shorten the life of joint ventures that much more. Whether that can happen fast enough to bail out shore-based processors and communities hungry for product remains to be seen. □

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ENVIRONMENTAL ASSESSMENT/REGULATORY IMPACT REVIEW/
INITIAL REGULATORY FLEXIBILITY ANALYSIS
OF AMENDMENT 11 TO THE FISHERY MANAGEMENT PLAN FOR
GROUNDFISH OF THE BERING SEA/ALEUTIAN ISLANDS

PREPARED BY THE PLAN TEAM FOR THE
GROUNDFISH FISHERY OF THE BERING SEA/ALEUTIAN ISLANDS
AND THE STAFF OF THE
NORTH PACIFIC FISHERY MANAGEMENT COUNCIL

~~MARCO~~

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3.0 ~~ESTABLISH A 100 MILE ZONE AROUND UNALASKA ISLAND~~

3.1 Description of and need for the action

The Magnuson Fishery Conservation and Management Act (MFCMA) outlines a priority to be used in determining fishery allocations. Domestic vessels who deliver to domestic processors (DAP) are afforded the highest priority. Domestic vessels that deliver to foreign processors (JVP) are considered next. Any amount surplus to these needs may then be allocated to foreign fishing vessels (TALFF). It has been policy to interpret this priority access or processor preference as relevant to the preseason allocation of T&C. Another interpretation of priority access is that the preference should extend to space and time, that is, that DAP should be given priority on the grounds through area closures to JVP and TALFF, or that DAP should be given priority in time through seasonal closures to JVP and TALFF.

It is in the spirit of the second interpretation of processor preference that the mayors of Unalaska and Akutan propose a regulatory change to allow only DAP fishing to occur in an area within 100 miles of Unalaska. The proposal is to correct an access problem whereby local shoreside processing facilities in the communities of Unalaska/Dutch Harbor and Akutan have had difficulties securing a steady supply of groundfish. It is the presumption, therefore, that such priority access would help to correct their supply problem.

The zone is a circle, with a radius of 100 miles centered upon Unalaska (Figures 3.1, 3.2). There would be no foreign or joint venture fishing allowed in the zone; fishing access would be restricted to domestic vessels delivering either to shore-based plants or to domestic at-sea processors. Domestic vessels which both catch and process groundfish would also be allowed to fish in the zone.

There are currently approximately 130 U.S. trawlers operating in the Bering Sea/Aleutian Islands management area (Table 1.1). Of these, a substantial number (= 120) deliver the catch to foreign processing vessels (joint venture). For the most part, these vessels are not able to easily and safely deliver fish shoreside. First, a substantial proportion are not able to hold fish onboard. Rather, these vessels deliver fish to at-sea processors through transfer of the cod end of the trawl. Second, even for those few vessels that have sufficient hold capacity to match their considerable harvesting capacity it is difficult to ensure shoreside delivery of product because the vessel may not have sufficient stability to carry fish any great distance, particularly in poor weather.

There is also the question of reduced product quality during the time it takes to deliver fish shoreside. Again, many of the trawlers have no refrigeration onboard, and, on average, face a running time of 10 hours to Dutch Harbor. Thus, there is some product deterioration during the period. More important than travel time to the decline in product quality, according to some joint venture operations (Annie Burnham, pers. comm.), is that delivery to shoreside would necessitate one or more pumping operations to transfer the fish, and it is the suctioning of fish that is most detrimental to quality.

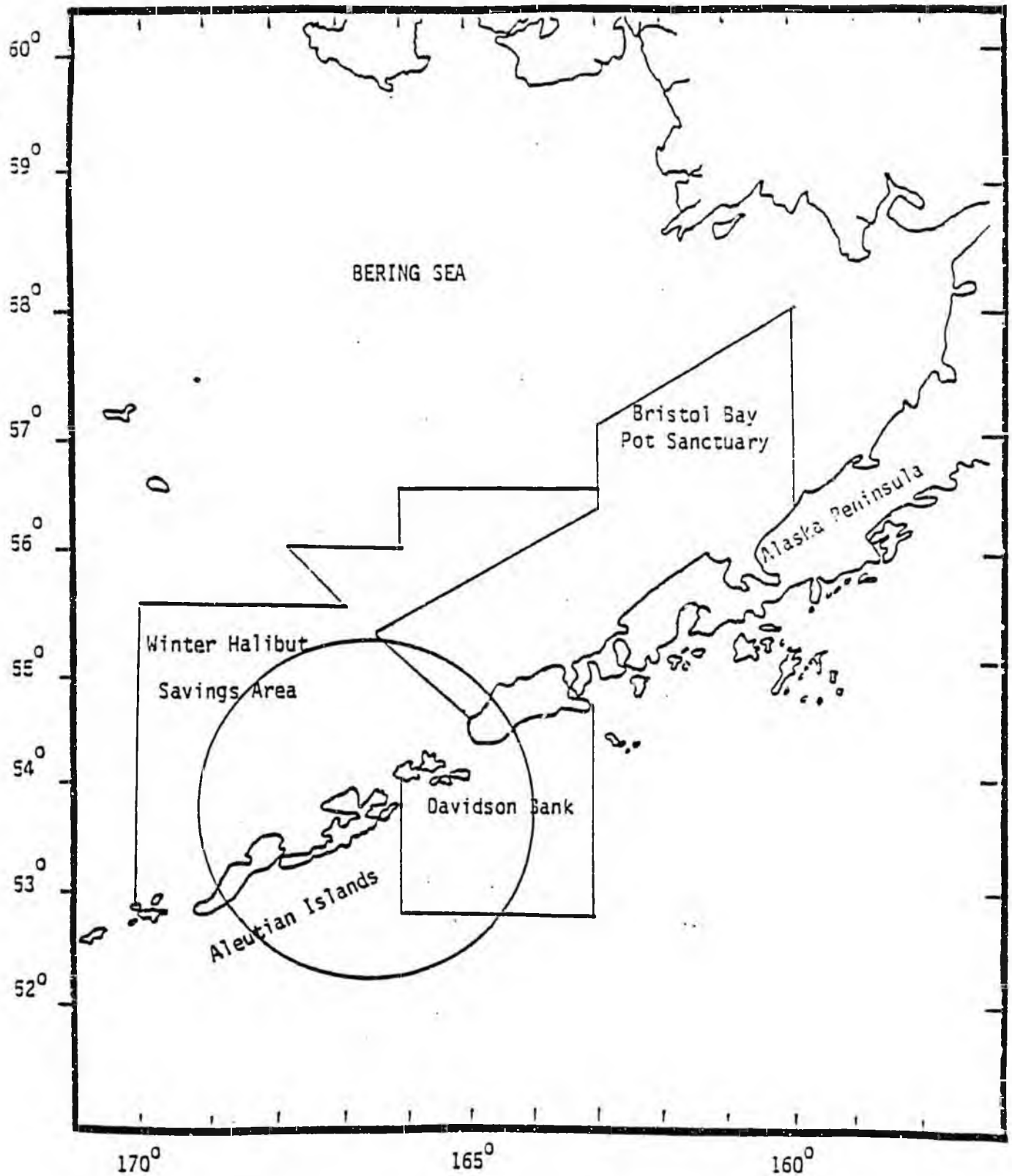


Figure 3.2. Alaska Peninsula/Aleutian Islands: Foreign closures currently in effect (Bristol Bay Pot Sanctuary, Winter Halibut Savings Area, and Davidson Bank) and proposed closed zone.

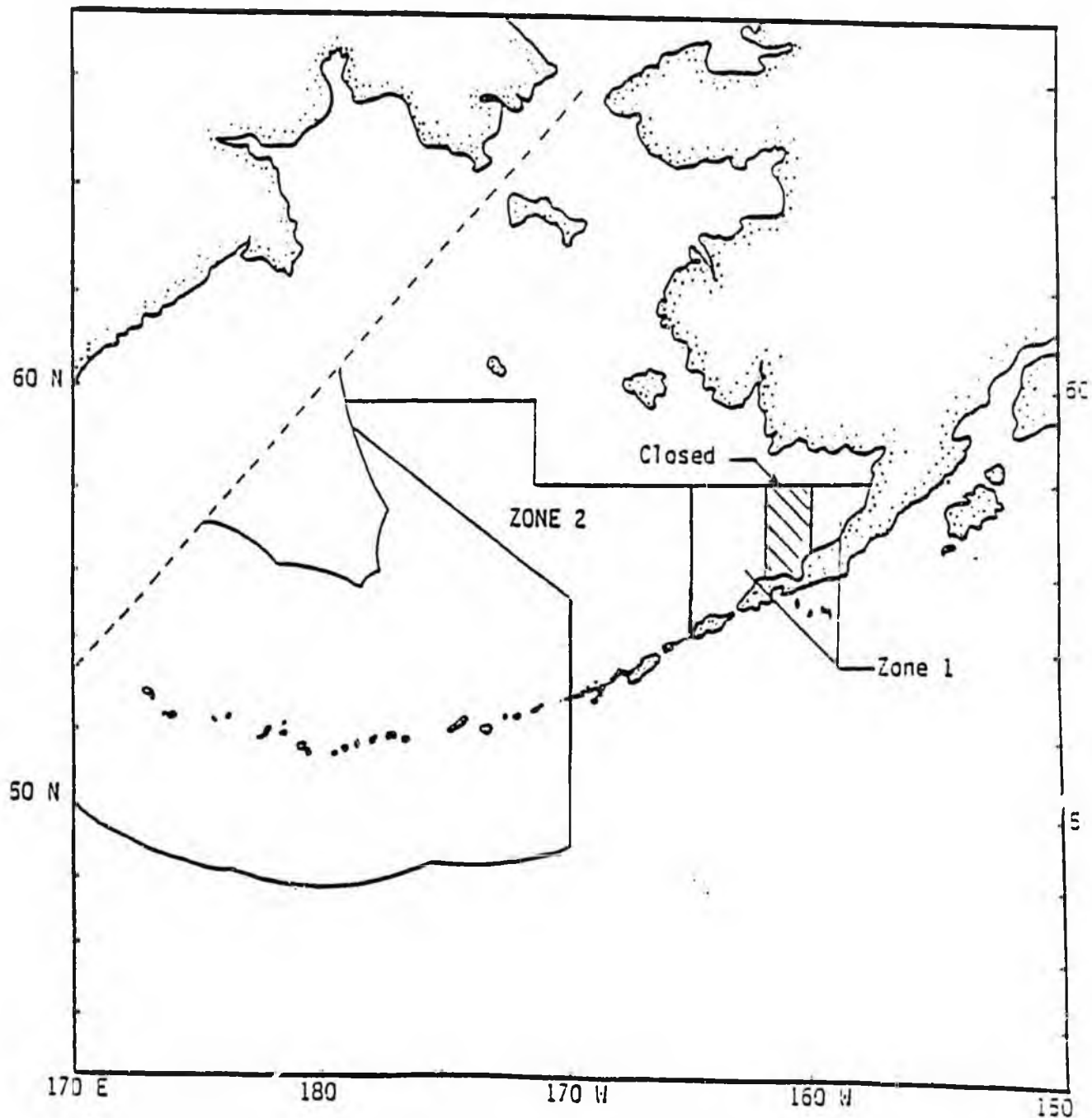


Figure 3.3. Areas (Zones) closed to fishing and DAH flatfish fishing under Amendment 10.

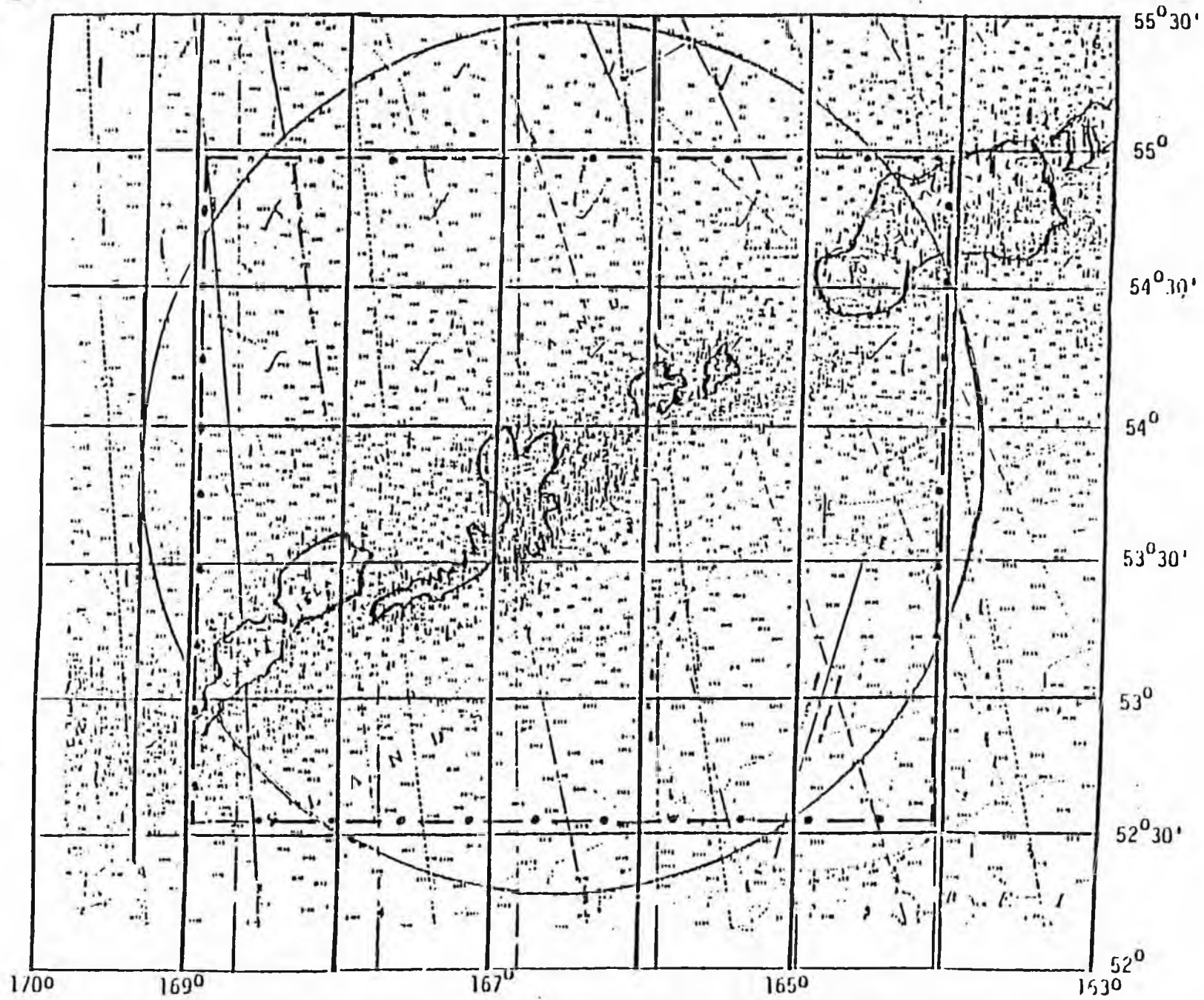


Figure 3.4. 100-mile zone proposed for closure to foreign and joint venture fishing. Circle is originally proposed area. Outer square (entire figure) is Zone 2. Inner square (—•—) is Zone 1.

vessel operational costs and processing costs for domestic and foreign processors (Lynca, 1981; NRC, 1981).

3.3 Biological and Physical Impacts

The likely impacts of adoption of each of the three alternatives to the status quo are examined in this section. Impacts are examined from, first, an environmental perspective, that is, how the measure might affect the non-human and human part of the ecosystem. Impacts are then examined from an economic perspective, viz., how the proposed change would affect the economics of fishing, and of processing; how the quantity and price to the consumer might be changed; and how management, information and enforcement costs might change. The approach taken is one of relative analysis, that is, the effect of each alternative is examined relative to the status quo.

The environmental impacts of each of the identified alternatives and sub-alternatives will therefore be presented in sequence with the economic impacts of each presented in a subsequent section. The concluding section, "cost-benefit" conclusion, will attempt to summarize the analysis.

3.3.1 Description and estimate of the number of small entities affected

The numbers of harvesting vessels operating in the Bering Sea/Aleutian Islands management area and in the Gulf of Alaska for DAP, JVP, and TALFF are discussed in Section 1.3. All alternatives could restrict JVP, and TALFF fishing operations and could enhance DAP fishing operations. Since the focus of this proposal is on domestic processors the regional distribution of shore-based processing plants, capacity, employment, investment, (Table 3.1) and the current capability of domestic at-sea processing vessels (Table 3.2) is also presented.

harvest than under the status quo. For the purposes of this analysis significant means a change in biomass which is: 1) measurable within the noise of the survey data and the precision of the population estimation procedure; and 2) of a long-term rather than transient nature.

To analyze the potential biological and socioeconomic impacts of closure of the 100 mile zone to joint venture and foreign fishing recent fishery performance data were examined. The data used were catches, by species, by month, by $1/2^\circ$ by 1° square, for the years 1984 and 1985. These are the most recent available data, since detailed 1986 catch data will not be available until later this year. The data are the best available, but it is important to point out two limitations of the current analysis.

First, as is evident from the 1984 to 1985 trend, from overall 1986 fishing performance, and from what is being reported concerning the 1987 fishery, very rapid changes in the structure of the fishery are taking place. The most obvious trends are a rapid decline in the amount of directed foreign harvest and the concomitant increase in joint venture harvest. Also notable is a rapid increase in the amount of allocations to DAP. It follows, therefore, that trends shown in the 1984 and 1985 data have continued, or even accelerated, in 1986 and 1987. This means that the impacts considered using data from 1984 and 1985 may misrepresent the present fishery to a greater or lesser extent depending on the rate of change.

Second, the $1/2^\circ$ by 1° square catch data are based on raw observer data. Since the observer coverage on fishing vessels is not 100% it is necessary to expand the raw catch data to predict actual total catch in a square. Data which would allow expansion on a square by square basis are not available, therefore, it is necessary to expand all squares by the uniform factor used to produce the "best blend" estimates. These estimates are made at the INPFC area level (Bering Sea I, Bering Sea II, etc.) hence the expanded square estimates assume a constant level of coverage across the INPFC area. To the extent that this assumption is invalid and to the extent that catches differ in composition from square to square the estimates presented herein will be in error.

Keeping these caveats in mind, the 1984 and 1985 joint venture and foreign fishery performance data are presented in Table 3.3. The Shumagin INPFC area, which is the same as the western Gulf sub-area in the Gulf of Alaska, is also included, as the 100 mile zone would extend southward of Unimak Pass. Aggregating the catches by $1/2^\circ$ by 1° square for 1984 and 1985 for Block 1 (small closure), Block 2 (larger closure), and for the remainder of the Bering Sea and Shumagin areas allows comparison of the relative contribution of each area to total catch in the two years (Table 3.4).

To facilitate that comparison the relative proportion of catch in each zone versus the total catch in the relevant management area (BSAI - all areas; GOA - Shumagin area) is shown in Table 3.5. Some general conclusions can be drawn from examination of these data.

First, the Gulf of Alaska portion of the closed zones was of great significance to joint ventures operating in the Shumagin district in 1984 and 1985. Catches of all groundfish combined in the proposed closed areas

BSAI/GOA Amendment 11/17. Table 3.4

Table 3.4. 1984 - 1985 Joint Venture and Foreign Catches in the BSAI Management Area and Shumagin Sub-management Area in mt. (1,2)

Block/Area (Joint Ventures)	Pollock	P. Cod	A. Mackerel	Flatfish	Rockfish	All Groundfish
<i>1984</i>						
Block 1 - BSAI	44,035	11,192	10	1,458	131	57,925
1 - GOA	7,636	198	227	510	359	9,467
Subtotal	51,671	11,390	237	1,968	740	67,392
Block 2 - BSAI	124,412	13,699	51	1,751	186	141,294
2 - GOA	7,647	205	249	512	658	9,611
Subtotal	132,059	13,904	300	2,263	844	150,905
Outside - BSAI	11,424	17,451	35,164	48,615	399	224,476
- GOA	34	15	5	9	63	147
Subtotal	11,478	17,466	35,169	48,624	462	224,623
<i>1985</i>						
Block 1 - BSAI	57,405	12,065	1	1,614	174	72,389
1 - GOA	1,369	313	1,997	333	369	14,042
Subtotal	59,274	12,378	1,998	1,947	543	86,431
Block 2 - BSAI	155,635	13,576	1	2,196	176	173,020
2 - GOA	2,626	328	1,997	340	369	14,823
Subtotal	158,261	14,004	1,998	2,536	545	187,843
Outside - BSAI	214,176	29,259	37,660	175,956	393	484,786
- GOA	14	3	3	3	1	25
Subtotal	214,190	29,262	37,663	175,959	394	484,811
<i>(Foreign)</i>						
<i>1984</i>						
Block 1 - BSAI	102,031	2,130	219	1,676	46	106,272
1 - GOA	23,506	818	6	193	124	24,766
Subtotal	125,537	2,948	225	1,869	170	131,038
Block 2 - BSAI	119,265	2,556	299	1,973	60	124,353
2 - GOA	24,124	1,506	7	199	140	26,164
Subtotal	143,389	4,061	306	2,172	200	150,517
Outside - BSAI	818,630	54,612	165	159,588	2,158	1,036,473
- GOA	51,821	12,156	595	915	2,695	68,902
Subtotal	870,451	66,768	761	160,503	4,853	1,105,375
<i>1985</i>						
Block 1 - BSAI	109,919	397	0	1,463	11	112,307
1 - GOA	8,236	90	2	26	0	8,353
Subtotal	118,154	986	2	1,489	11	120,660
Block 2 - BSAI	114,174	1,291	0	1,632	15	117,133
2 - GOA	8,240	237	2	29	0	8,559
Subtotal	122,414	1,577	2	1,661	15	125,692
Outside - BSAI	726,684	55,975	2	131,417	293	914,516
- GOA	17,718	6,338	7	438	270	24,788
Subtotal	744,402	62,314	9	131,855	563	939,304

1/1. Blocks are as shown in Figure 3.3. Block 1 is the "small" 100 mile closure--the area between 164° W and 169° W; 55° 00' N and 52° 30' N. Block 2 is the "large" 100 mile closure--the area between 163° W and 170° W; 55° 30' N and 52° 00' N. "Outside" is the area not included in Block 2.
 1/2. Source: Foreign observer database, NWAIFC. Data used are catches by 1/2° x 1° square expanded to account for 5% observer coverage and aggregated over the relevant area; therefore, the sum of these catches may not exactly match those catches reported in Table 3.3.

range from 95% to 100% of the total Shumagin catch and, in 1985, the catch in the larger block was essentially the same as total joint venture catch in the sub-area. Second, the contribution of the GOA portion of the zones to total foreign catch in the Shumagin district is much less than that seen with the joint venture fleet with catches in Block 1 and 2 of all species combined in the range of 26-27% of the Shumagin total harvest. Third, the Gulf part of the closed areas is much less significant in terms of contribution to total Alaskan catch than the Bering Sea portion of the zones. Fourth, for the BSAI management area, the proposed closed areas are relatively more important to the joint venture fleet than the foreign fleet.

Lastly, and, perhaps most significantly, for the BSAI management area, the portion of each species catch in the proposed zone ranges from nearly 0 for Atka mackerel (joint ventures - 1984 and 1985; foreign - 1985) to in excess of 90% for pollock (joint venture - Block 2 - 1984). Overall, the catch that occurred in the smaller zone is in the order of 2-3% for the foreign fleet and 60% for the joint venture fleet. For the larger proposed closure, the appropriate proportions are 3-4% and 60-65%, respectively.

What is important for this analysis, however, is not what the catch was in 1984 or 1985 but what the distribution and total amount of harvest would be if the proposed blocks were in fact closed to joint venture and/or foreign fishing. This is difficult to assess since, as mentioned above, the current and, presumably, the future fisheries will be much different than what occurred two or three years ago. Second, assuming that all catch occurring in the zones would be unavailable to harvesters upon closure is a "worst case" scenario in which the catch foregone would not be made up by fishing in the remaining open area. The opposite "best case" scenario would be to assume that all catch foregone could be harvested elsewhere in the remaining open areas. Under this latter assumption there is no biological impact resulting from the closure of the zone to joint venture and foreign fishing.

Obviously, reality lies between these two extremes and, hence, the impact lies between nil and that implied by the numbers in Table 3.5. Note that even under the assumption that total catch is unaffected by closing the 100 mile zones, because of the fleet's potential to make up the lost catch, there would be a potential biological impact since the spatial distribution of the harvest will change. This is not deemed biologically significant under the definition given above.

The question of biological impact hinges, then, on the amount of catch that can be made up if either of the proposed closures are enacted. The answer depends on the distribution of the biomass of the various species both in space and time. Foreign catch data for pollock and cod in 1984 (Figure 3.5, Figure 3.6) indicate that there are fish of these species caught outside the closed areas (see also Table 3.3), although there is some indication that the proposed closures represent the most productive grounds for these species. The seasonality of the data is hidden by these annual totals, however. Also, fishery performance does not necessarily reflect biomass distributions.

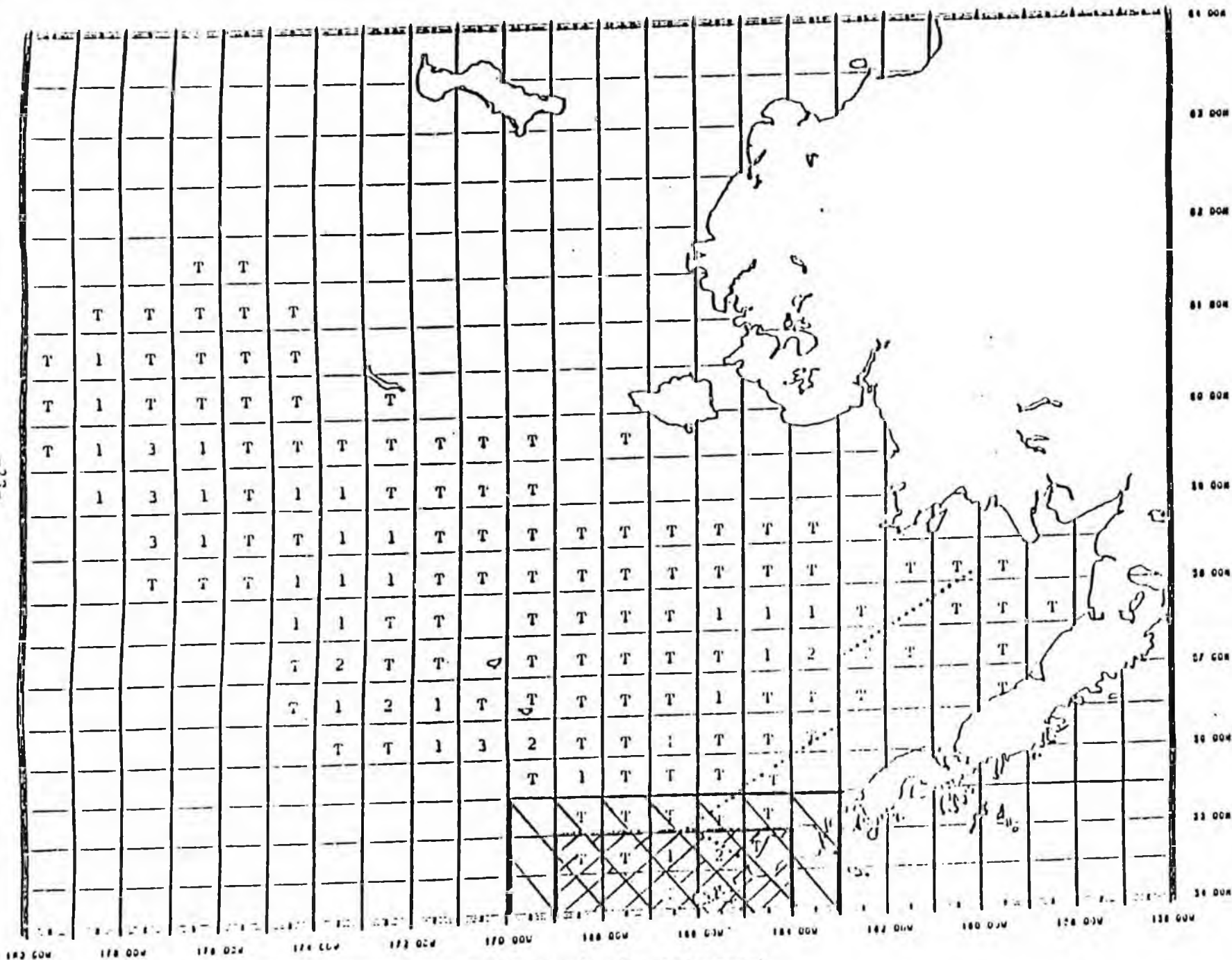


Figure 3.6.-Foreign-reported catch (thousands of metric tons) of Pacific cod in 1984.

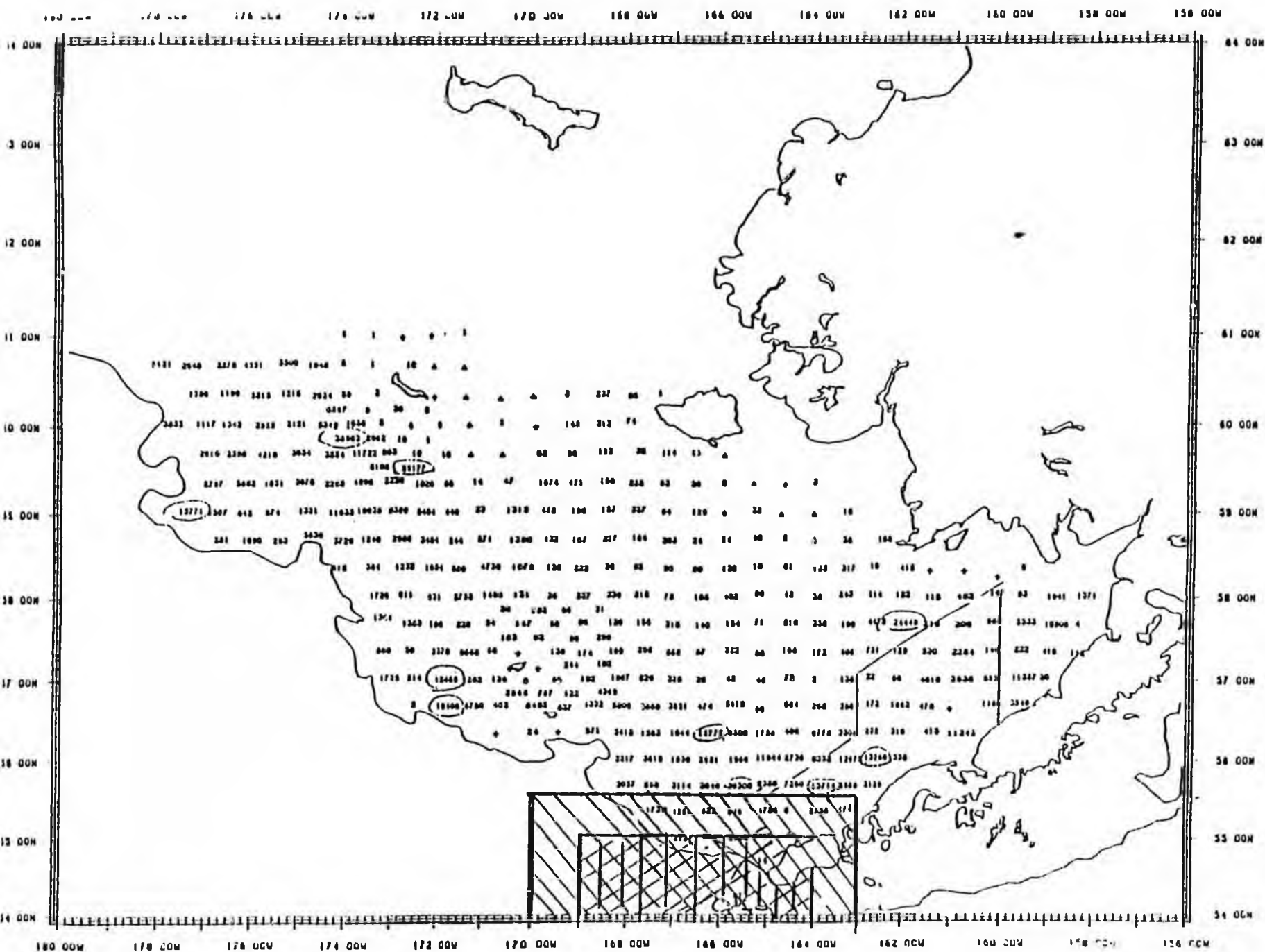


Figure 3.7 --catch per unit effort (lbs/hr trawled) of walleye pollock (*Theragra chalcogramma*) from 1904 research survey data.

Table 3.6. 1984 joint venture and foreign catches in the BSAI Management Area and Shumagin Sub-management Area, by month, in metric tons.

Month	<u>Joint Venture</u>					All Groundfish
	Pollock	P. Cod	A. Mackerel	Flatfish	Rockfish	
Jan	38	212	0	25	0	280
Feb	607	3,739	0	411	0	5,068
Mar	28,757	6,937	0	809	0	37,196
Apr	43,111	3,679	1,842	4,653	108	55,059
May	1,974	2,688	7,656	7,574	281	21,044
Jun	31,340	3,971	10,018	11,300	115	58,051
Jul	68,855	3,963	9,655	5,797	407	89,972
Aug	50,553	2,550	6,159	9,938	157	73,667
Sep	11,196	2,417	0	9,636	65	26,550
Oct	6,937	216	140	750	172	8,559
Nov	131	0	0	1	1	133
TOTAL	243,499	31,372	35,470	50,894	1,306	375,579

Table 3.7. 1985 joint venture and foreign catches in the BSAI Management Area and Shumagin Sub-management Area, by month, in metric tons.

Month	<u>Joint Venture</u>					All Groundfish
	Pollock	P. Cod	A. Mackerel	Flatfish	Rockfish	
Jan	110	140	0	15	0	267
Feb	1,743	4,297	0	527	0	6,979
Mar	45,197	6,864	8	1,067	3	53,822
Apr	61,474	3,327	4,031	11,102	32	84,842
May	7,214	3,069	17,518	36,463	232	67,872
Jun	20,530	5,898	8,614	30,486	218	71,307
Jul	126,349	8,029	7,563	36,318	30	185,415
Aug	59,591	5,318	0	31,798	145	101,572
Sep	41,027	4,345	1,099	20,006	108	67,852
Oct	15,286	1,846	822	10,669	166	29,584
Nov	2,929	126	9	61	7	3,145
TOTAL	381,450	43,269	39,655	178,502	941	672,387

Table 3.8. Percentage of 1984 and 1985 Joint Venture and Foreign Catches in the BSAI Management Area, January - June, by block

Block/Area	Pollock		P. Cod		A. Mackerel		Flatfish		Rockfish		All Groundfish	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
(Joint Ventures)												
Block 1	17.3%	3.0%	34.8%	27.3%	0.0%	0.0%	2.6%	0.8%	9.9%	0.4%	10.0%	3.8%
Block 2	59.1%	12.5%	42.2%	30.0%	0.0%	0.0%	3.1%	1.0%	9.9%	0.4%	26.3%	9.5%
All of BSAI	77.9%	36.6%	68.0%	54.9%	55.1%	79.9%	49.0%	44.7%	22.4%	64.1%	48.1%	43.2%
(Foreign)												
Block 1	0.1%	0.0%	0.4%	0.0%	0.9%	0.0%	0.1%	0.0%	0.3%	1.6%	0.1%	0.0%
Block 2	0.2%	0.0%	0.4%	0.1%	0.0%	0.0%	1.2%	0.8%	0.3%	1.6%	0.2%	0.0%
All of BSAI	21.9%	12.3%	25.1%	31.5%	2.8%	0.0%	17.9%	29.0%	43.3%	5.2%	21.5%	15.5%

The environmental impacts of potential reductions in catch were discussed in Section 3.3.2. Obviously, harvest reductions also have economic impacts. The most obvious perspective for examination of these impacts is one of reduced ex-vessel gross receipts in response to the reduction in harvest. Potential revenue losses arising from the proposed block closures are examined in Tables 3.9 and Table 3.10, which present total ex-vessel revenue in a zone, and percentage of total revenue in a zone, respectively. These are "worst case" scenarios of the likely revenue impact on the harvesting sector for the reasons argued above. The opposite "best case" scenario would assume no catch is foregone and that, therefore, ex-vessel receipts would not decline.

In contradistinction to the environmental analysis, however, the possibility of no reduction in receipts does not mean there is no economic impact on the fleet. This is because the displacement of the fleet from normally productive grounds to areas which may be less productive and involve greater running time from port will necessarily increase operational costs. This is not only due to increases in fuel costs because of increased running time, but also a consequence of increased "searching costs"--money and time spent locating productive grounds. Also, the distance to the new grounds or the timing of the new season may be such that some vessels will be unable to participate at all.

Representative costs for three sizes of joint venture trawlers are shown in Table 3.11. Costs per metric ton of groundfish range from \$88 to \$95 depending on vessel size. Fuel costs constitute between 12% and 18% of total operating costs, thus, if trip length were to double because of increased running time, fuel costs would be expected to double, everything else remaining equal. This means that fuel costs may increase by as much as \$15.45 per mt of groundfish harvested, increasing total operational costs by approximately 17%.

One important question to be answered, however, is does everything else remain equal? In particular, will CPUE change to the extent that there is a change in gross revenue, an increase or decrease in operating costs, or both, should vessels relocate to less productive grounds? This is a relevant question if vessels which would have fished in areas of high CPUE were forced to fish elsewhere. This would certainly be the case in the closure of the two proposed zones in Unimak Pass because the total requirements of the shoreside plants, = 825 mt/day (Table 3.1), are much less than the total catching capacity of the joint venture fleet, 400-600 mt/day per vessel (Alaska Dragger's Association, pers. comm.), which in terms of a fleet of 120 vessels, is about 60,000 mt/day. Thus, the daily catches of two or three vessels could satisfy the requirements of the shore based plants.

If there is a "CPUE effect" which increases cost to vessels fishing for joint ventures when they are forced to move to inferior grounds, there is a corresponding opposite positive effect to those vessels that remain in the area. This benefit would accrue primarily to domestic at-sea

7. This may be a high estimate. Reports from the joint venture roe pollock fishery indicate current maximum fishing rates are about 10,000 mt/day.

CORRECTION

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

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7. This may be a high estimate. Reports from the joint venture roe pollock fishery indicate current maximum fishing rates are about 10,000 mt/day.

Table 3.2. 1984 and 1985 Ex-vessel Revenue for Joint Venture and Foreign Fisheries in the BSAI Management Area, January - June, by block (\$1,000s)

Block/Area	Pollock		P. Cod		A. Mackerel		Flatfish		Rockfish		All Groundfish	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
(Joint Ventures)												
Block 1	\$2,463	\$1,150	\$2,371	\$2,568	\$0	\$0	\$173	\$198	\$15	\$1	\$4,316	\$4,000
Block 2	\$8,430	\$4,873	\$2,875	\$2,822	\$0	\$0	\$208	\$243	\$15	\$1	\$11,343	\$7,359
All of BSAI	\$11,108	\$14,224	\$4,610	\$5,165	\$2,929	\$4,545	\$3,309	\$10,671	\$35	\$97	\$20,771	\$33,519
(Foreign)												
Block 1	\$117	\$8	\$46	\$0	\$0	\$0	\$12	\$2	\$2	\$1	\$175	\$12
Block 2	\$173	\$8	\$49	\$18	\$0	\$0	\$263	\$142	\$2	\$1	\$247	\$23
All of BSAI	\$21,535	\$10,875	\$3,145	\$3,918	\$2	\$0	\$3,882	\$5,170	\$254	\$1	\$3,496	\$18,905

Table 3.11. Cost Structure of Joint Venture Trawlers

	85 ft.		108-115 ft.		120 ft.	
	\$/lb.	%	\$/lb.	%	\$/lb.	%
Variable Costs						
Labor	\$0.015	37.5%	\$0.014	33.3%	\$0.013	30.2%
Fuel	0.007	17.5	0.005	11.9	0.005	11.6
Total Variable Costs	0.022	55.0	0.019	45.2	0.018	41.8
Fixed Costs						
Interest	0.002	5.0	0.003	7.1	0.004	9.3
ROI @ 30%	0.003	7.5	0.004	9.5	0.005	11.6
Insurance	0.004	10.0	0.004	9.5	0.004	9.3
Maintenance	0.006	15.0	0.007	16.7	0.007	16.3
Depreciation	0.003	7.5	0.005	11.9	0.005	11.6
Total Fixed Costs	0.018	45.0	0.023	54.7	0.025	58.1
TOTAL COSTS \$/lb.	0.040	100.0	0.042	99.9	0.043	99.9
TOTAL COSTS \$/mt	\$88.20		\$92.61		\$94.80	

Other Information:

Crew size	4.02	5.02	4.95
Catch/Man/Day (lbs)	30,000	33,000	40,000
Catch/Day	121,000	176,000	198,000
Days/Fishing Year	150	190	200
Total Catch/year (lbs)	18,150,000	33,440,000	39,600,000
Total Catch/year (mt)	8,231	15,147	17,959

Source: NRC, "A Strategy for the Americanization of the Groundfish Fisheries of the Northeast Pacific," V.2, p. 128 (1985).

CPUE of approximately 98%. If effort were instead reduced by 25% then CPUE would increase approximately 33%.

The profitability of this increase in CPUE can be examined by assuming that inputs (labor, time, etc.) are fixed. Then, an increase in CPUE would lead to an increase in catch (output) at the original level of inputs. From this perspective gross revenue has increased in the same proportion that CPUE has increased. If the returns to the vessel owner are 50% of net revenue (after the payment of all costs including crew shares) then the increase in profitability would be one half of increase in net revenue.

For example, calculations using the data of Table 3.11 for a fishing vessel of 108-115 ft., indicate that total costs per day are about \$93/mt and total annual catch is 15,000 mt. If daily catch had been 100 mt and CPUE increases such that catch is increased to 150 mt/day then gross revenue would increase by 50% and net revenue would increase from \$700 per day to \$2,850 per day.⁹ If this gain were experienced by 30 vessels, the total increase in profitability would be \$64,500.

The increase in profitability could therefore be substantial for those vessels able to fish in the DAP only zone, given the potential displacement of effort as indicated in Table 3.4. As mentioned above those benefits would accrue to the remaining vessels; perhaps 3 to 6 fishing vessels who had been operating as joint venture catcher vessels and up to 25 domestic catcher/processors or mothership/processors (Table 3.1, 3.2).

At the same time the opposite phenomenon would occur for the displaced vessels. CPUE could be expected to decrease for two reasons. The first is a consequence of the assumption that the closed areas represent the most productive fishing grounds. This is certainly true as far as past fishery performance is concerned although the survey data presented in Figure 3.7 and Figure 3.8 indicate that there may be potentially productive grounds for pollock in other areas of the Bering Sea. If these concentrations are available to the fishery it remains true that the increased running time and search time will increase costs. It is also possible that the spawning aggregations of pollock which are so attractive to roe and surimi processors do not occur in areas further north and west of the Unimak Pass area.

The second reason for an expected decline in CPUE is a consequence of the model presented above. A relation such as (1) or (2) would predict that as new effort is put into an area CPUE will decline, all else equal. The decline in CPUE experienced by the displaced joint venture vessels may be much less in percentage terms than that predicted as an increase for vessels allowed to fish in the zone since the percentage changes in effort are less. The actual decline will depend on the concentrations of target species on the new grounds and the percentage increase in total effort in the area. If both of these factors are modest the decline in CPUE will also be modest. However, the numbers of vessels involved (= 120) imply that the total loss in profits could be significant.

9. Assuming an ex-vessel price of \$100/mt.

in the environmental impact section, a seasonal closure of either of the suggested zones would be intermediate in impact between the no action alternative and the year round closure alternative (Alternative 2). Thus, the preceding discussion on costs and benefits to the fishing fleet overstates the impact of a six month closure of the Unimak Pass fishing grounds to joint venture and foreign fishing.

Likewise, Alternative 3b, which would impose a January 1 to June 30 closure on joint venture fishing Bering Sea wide, is predicted to have potentially a greater impact on the fishing vessels operating in the Bering Sea because of the large amount of catch likely to be foregone.

In sum, the economic impact of Alternative 2, Alternative 3a, and Alternative 3b are qualitatively the same. The magnitude of the impacts will stand in direct proportion to the amount the harvest is reduced in the closed zones, or in the entire Bering Sea. Short term benefits will accrue to those vessels delivering shoreside (to the extent that shoreside capacity exists to process fish) and to domestic vessels processing at-sea. Costs will be borne by the owners and crews of joint venture vessels who are not able to deliver shoreside, or who experience increases in costs, decreases in revenue, or both, and by joint venture service companies.

In the longer term, all the Alaskan harvest will be processed domestically, with or without establishing a zone for priority access, or a seasonal closure of all or a portion of the Bering Sea management area. The question to be answered is what is the best course for this Americanization--where best is taken to mean that course of action which results in the greatest stream of benefits to the U.S. economy. The answer depends on the investment climate, and the relative costs of various types of operation. This last issue--relative costs--is the topic of the following discussion concerning the imposition of fees or assessments on foreign processors receiving product from domestic catcher vessels.

Alternative 4: fees on foreign processors in the joint venture fishery

Much of the analysis of the preceding alternatives has been concerned with the changes in expected harvest, either in the physical sense for the environmental analysis, or in terms of ex-vessel revenue for the economic analysis. It is clear, however, from the debate surrounding this controversial issue and from the discussion above that one key factor is the relative cost advantage of foreign at-sea processing, versus domestic at-sea processing versus domestic shoreside processing.

Comparative cost information is limited but a recent study by Natural Resource Consultants (NRC, 1986) indicates that, for a pollock filleting operation, total processing costs shoreside and at-sea are roughly equivalent (Table 3.12). The cost comparison does not, however, include shoreside delivery cost.

A similar comparison of processing costs for surimi operations reveal a rough parity between domestic shorebased and at sea processors, with an estimated cost differential of between 4 and 11 cents per pound (Table 3.13). The Japanese catcher/processor of surimi faces costs similar to

Table 3.13. Surimi Processing, Shore Based v. Sea Based
(cents/lb.)

<u>Cost Element</u>	<u>Alaska^{1/} Shoreside Plant</u>	<u>American^{1/} Operated Mothership</u>	<u>American^{1/} Catcher/ Processor</u>	<u>Korean Mothership</u>	<u>Japanese Catcher/ Processor</u>
Fish	30-35	23-25	-	23-25	-
Other Materials					
Packaging	3	3	3	3	3
Labor	17	23	27	6	34
Fuel/Energy	1	1	4	1	4
Freight	10	10	10	10	10
Insurance	.5	.5	1.5	.5	1
Depreciation	3	2	6	2	7
Maintenance	.5	1.5	3	.5	2
Other	2	2	2	2	2
Return on Capital (16%)	<u>10</u>	<u>5</u>	<u>16</u>	<u>5</u>	<u>18</u>
Total	77-82	71-73	73	53	81

Assumptions:^{1/}

Annual Production Volume (millions of pounds)	23	63	24
Initial Capital cost (millions of dollars)	\$13	\$18	\$22

Source: Natural Resources Consultants, Fletcher & Co. Analysis (Summer 1986 estimates).

If, however, the rationale for imposition of the fee is to counteract the advantage accorded to foreign processors via the combination of national subsidies and the non-imposition of costs related to U.S. legal system (landings taxes, MFCMA assessments, OSHA requirements, etc.) it is more appropriate to consider only the relevant proportion of differential costs. A full analysis of the relative advantage of subsidies and the relative disadvantage of mandated costs is beyond the scope of this analysis, however, a rough approximation using information in Tables 3.13 and 3.14 is that U.S. processors are at least disadvantaged 2-3% due to the landings taxes. This translates to a differential of 6 to 9 cents per lb (for surimi processing, Table 3.13) which is equivalent to a per mt assessment of \$130-200. If one wished to factor in transportation costs of fish shoreside (estimated earlier at 6-11 cents/lb) to level the playing field for Alaskan shorebased plants a total assessment of 12-20 cents/lb (\$265-440/mt) would be appropriate.

Operationally, the assessment estimation, and collection procedures could be handled in the same way that the current fees on directed foreign fishing operations are administered. Note that the MFCMA permits the collection of fees

at least in an amount sufficient to return to the United States an amount which bears to the total cost of carrying out the provisions of the [Magnuson] Act during ... fiscal year 1986 the same ratio as the aggregate quantity of fish harvested by foreign fishing vessels within the fishery conservation zone during 1985 bears to the aggregate quantity of fish harvested by both foreign and domestic fishing vessels within such zone and the territorial waters of the United States during [1985].¹³

This alternative does have price implications, however. That is, the new cost structure may affect the basic market pricing mechanisms, potentially raising prices at the secondary processing, wholesale and retail levels. Price responses will depend on the willingness and ability of the seller to pass on cost increases (i.e. the relative price elasticities of supply and demand).

3.4.2. Reporting Costs

The closed zone alternative(s) or the closed season approach may require imposition of new check in/check out procedures for all fishing vessels. If the reporting burden is placed on the foreign processing vessels existing regulations should suffice. Imposition of fees on foreign processors will not require any changes in the status quo reporting requirements.

3.4.3. Administrative, Enforcement, and Information Costs and Benefits

The administrative cost of the area closure relates to the cost of any reprogramming on the part of the observer program and PacFIN. These costs are not likely to be substantial. The administrative cost of the seasonal

13. 16 U.S.C. 1824(b)(10)(B)

alternatives (closure of the larger Block 2, a January - June closure of the entire Bering Sea to joint ventures and foreign fleets) will have significant positive impacts on the domestic at-sea processing component and significant negative economic impact on the joint venture fishery.

It is impossible to conclude, however, that the closures will result in more product delivered shoreside than would otherwise be the case. Certainly, all alternatives increase the likelihood of this happening by improving the competitive position of the shorebased plants. What actually happens is completely dependent on the ability of the displaced fleet to make up the foregone catch, and on the ability of the domestic at-sea processing component to preferentially capture the benefits. Cost reductions and increases also depend, in part, on the magnitude of the CPUE effect. If costs are reduced enough to allow vessels to lose fishing time by delivering shoreside or to operate (or charter) tendering vessels to complete the transfer of product while still enhancing profitability the supply problem for shorebased processors will cease over the near term. If the cost reduction on the grounds is not large enough to cover the transportation costs closures will not rectify the problem.

Whether the net benefit exceeds net costs in terms of the total U.S. economy will depend on the size of the closure (in space and time), the costs of displacement and the ability to make up catch potentially foregone because of the closures, and the quantitative relationship relating CPUE to profitability. All three items require estimation which has the usual attendant errors, however, our ability to predict the probable catch in new fishing areas is very limited, and it is this prediction of catch changes that is critical to the whole prediction process.

Worst and best case predictions are possible, however, using results presented earlier. The smaller block closure (Alternative 2a) would reduce joint venture gross ex-vessel revenue by \$8-10 million if none of the catch foregone is made up (Table 3.9.1). Likewise, the worst case for the larger block closure indicates a revenue loss of \$18-22 million (Table 3.9.1). Worst case scenarios for the foreign fisheries indicate potential losses in gross revenue of \$14-18 million for the two alternative closures (Table 3.9.1). The corresponding best case scenarios would predict no ex-vessel revenue declines although profits would be expected to decline because of increased costs.

In the same manner, the worst case for the seasonal closure indicates a loss in ex-vessel gross revenue of \$21-34 million for joint ventures, and \$3-19 million for the foreign fisheries for a six month closure of the entire Bering Sea management area (Table 3.9.2). Corresponding worst case declines in ex-vessel revenue for seasonal closures of the blocks are, for the smaller closure, \$3-4 million and \$12-175 thousand for joint ventures and foreign fisheries, respectively; and, for the larger closure, \$7-11 million and \$23-250 thousand, respectively (Table 3.9.2). Again, the best case scenario would predict no revenue decline.

The best and worst case scenarios for DAP revenue would predict the maximum and minimum gains to DAP due to the closures (area or area/season). The worst case would be that DAP is unable to increase its share of the landings. Revenue increases would then be \$0. This is very unlikely, as

JUSTIFICATION
FOR
THE DOMESTIC FISHERY ZONE
WITHIN
100-MILES OF UNALASKA

A Supplementary Report
to
James Campbell, Chairman
North Pacific Fishery Management Council

by

The City of Unalaska
Paul Fuhs, Mayor
(907) 581-1251

and

The City of Akutan
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INTRODUCTION

In Unalaska and Akutan, fish is our future. No fish, no future. During 1986, our processors had difficulty buying a steady supply of pollock and cod, even though they were paying 25% more than joint venture motherships offered.

To help us overcome this shortage, we request that the North Pacific Council set aside the grounds inside a 100-mile radius of Unalaska, not just for us, but for all DAP fishermen and processors.

The time-area closure concept of fishery management and allocation is the essence of our proposal.

When Congress was deciding how to stimulate the American fishing business ten years ago, it chose the time-area closure as its preferred instrument of change.

Congress drew the 200-mile boundary line and notified the world that access to the fish inside that line would be granted on a clearly-stated, priority basis: DAP fishermen and processors first, JVP fishermen second and TALFF last.

Our proposal is a legitimate descendant of the 200-mile limit line.

Congress anticipated that Americans like us would request such lines in the future as the domestic fishing business developed.

Our proposal seems to have given JVP fishermen boundary anxiety, though. They claim that drawing lines in the ocean is impractical and that it sets a dangerous precedent.

This is peculiar for two reasons. First, if Congress had not drawn a 200-mile line along the American coast in 1976, many of these people would not be in the groundfish business today. There would be no incentive for foreign fishing companies to participate in joint ventures. Directed foreign fishing would still dominate the Bering Sea and Gulf of Alaska. Second, many JVP fishermen who oppose the 100-mile line around Unalaska did not oppose, nor seek to repeal, the boundary lines that kept foreign fishermen out of the Shelikof Strait pollock fishery, where many JVP fishermen made their first, big money.

There's an obvious double standard here where there shouldn't be.

We all understood the rules under the Magnuson Act. Competition for the pollock and cod in the Bering Sea and Aleutian Islands should be conducted according to those rules. To suddenly deny the rules or to thwart them suggests an unwillingness to share the wealth from these fisheries.

Those who have already profited from priority access cannot reasonably deny DAP fishermen and processors the same advantage.

This paper will describe how much pollock and cod has been harvested from this area in 1983, 1984 and 1985, how that amount compares to the DAP processing capacity in the area, and if JVP fishermen could find pollock and cod in commercial abundance elsewhere.