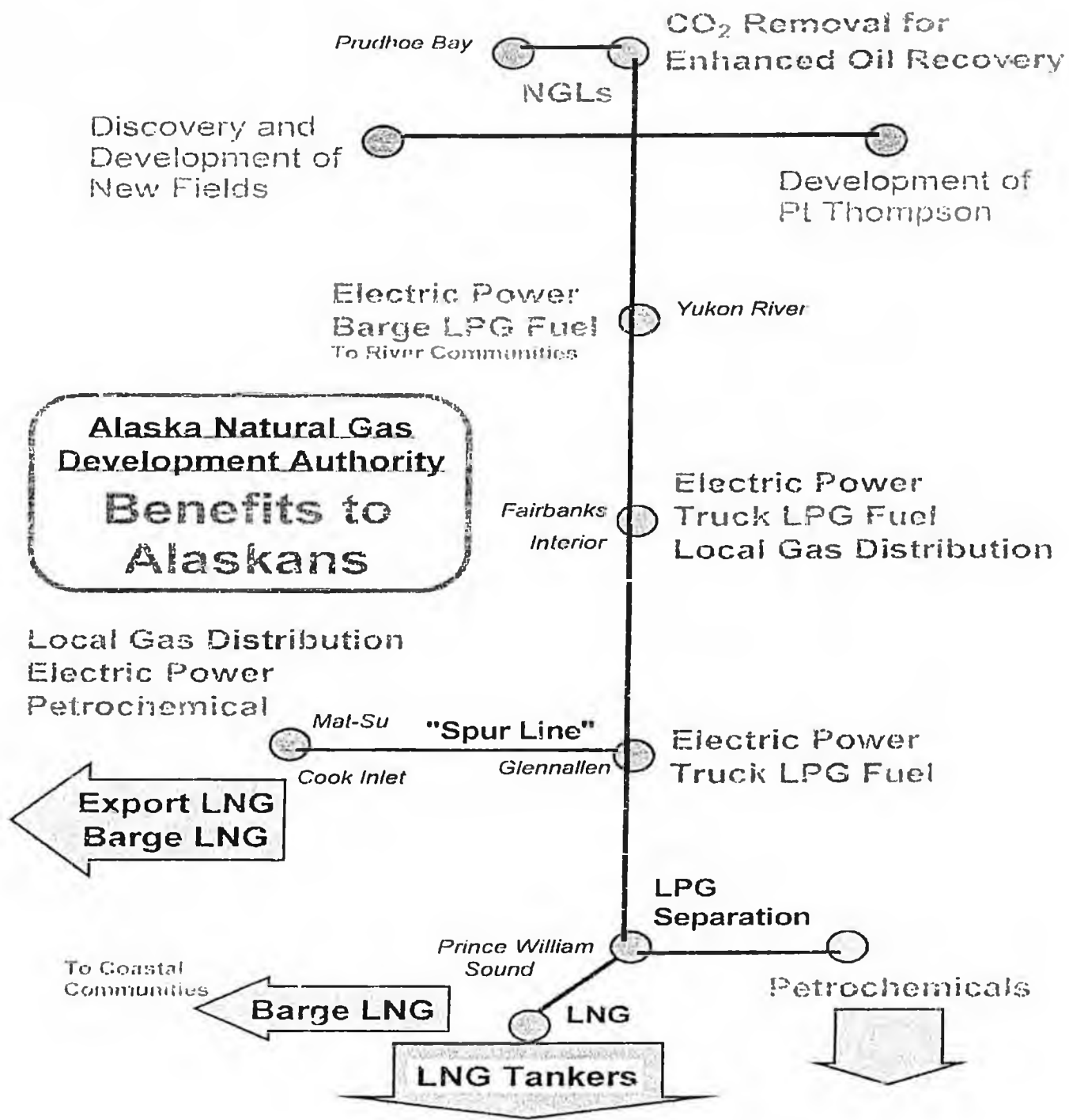


**ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672**

**10973 HOUSE RESOURCES**

## Observations on All-American LNG Project

- LNG export key to achieving economy of scale with in-state use
- Gas at tidewater opens up a wide variety of options (i.e., petrochemicals & CNG)
- Cost of service drops over a \$1/mmbtu using ANGDA financing & tax leverage
- Alaskan LNG can compete in \$3 gas world
- LNG customers will share in market price risk / reward



**Alaska Natural Gas  
Development Authority  
Benefits to  
Alaskans**

Local Gas Distribution  
Electric Power  
Petrochemical

Export LNG  
Barge LNG

Barge LNG

LNG Tankers

Petrochemicals

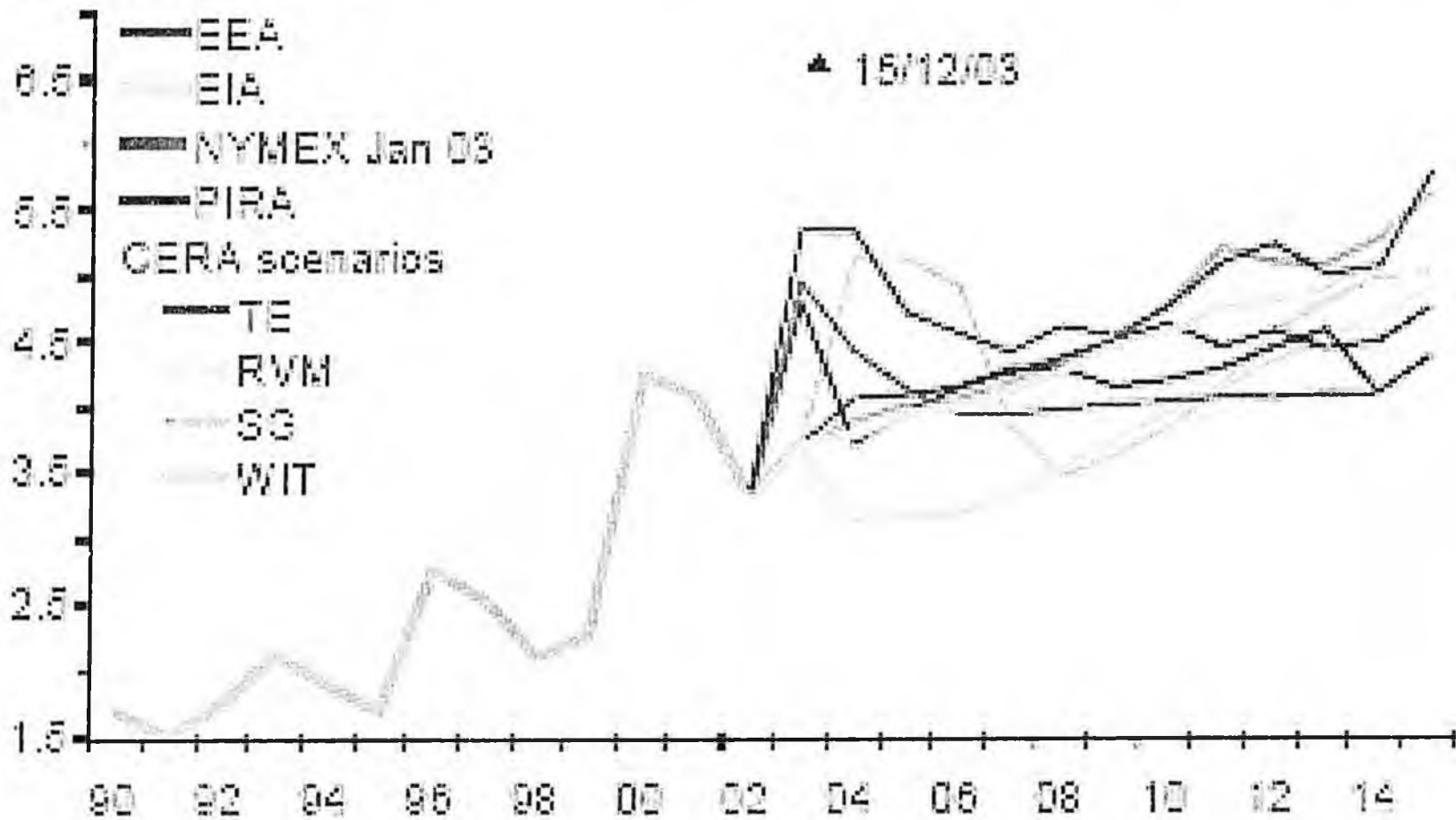
# Natural Gas Consumption in Alaska (BCF per year)

• Residential	15
• Commercial	20
• Electrical	35
• Agrium Plant	50
• Kenai LNG Plant	100
<b>TOTAL</b>	<b>220 Bcf/yr</b>
• New Public Services (?)	100 - 150

2

# Henry Hub price forecasts 2002-15

\$/million BTU



# Future Cook Inlet Gas Price

## North Slope Gas Delivered via Spur Line



Gas Price in Chicago	<b>\$4.00 / Mbtu</b>
Tariff from North Slope	-\$3.00 -----
Net-Back Gas Price on North Slope	\$1.00
Tariff to Cook Inlet	+\$1.50 -----
<b>Gas Price in Cook Inlet</b>	<b>\$2.50 / Mbtu</b>

# **Alaska Natural Gas Development Authority**

Homepage is: <http://146.63.35.79/>

Harold Heinze

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(907) 257 – 1347

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HB

419



Committee Assignments:

Member:

House Special Committee on Fisheries  
House Special Committee on Education  
House Transportation Committee  
House Judiciary Committee

**Dan Ogg**  
Representative

Session:  
Room 409  
Capitol Building  
Juneau, Alaska 99801  
Phone: 907-465-2487  
Toll Free: 800-865-2487  
Fax: 907-465-4956  
Email: rep.dan.ogg@legis.state.ak.us

Interim:  
112 Mill Bay Road  
Kodiak, Alaska 99615  
Phone: 907-486-8872  
Fax: 907-486-5264

**SPONSOR STATEMENT**

House Bill 419

2/18/04

**"An Act relating to regional seafood development associations and to regional seafood development taxes."**

HB 419, recommended by the Joint Legislative Salmon Industry Task Force, will allow fishermen to form regional seafood development associations to tax themselves, providing a stable funding source for marketing efforts.

Farmed salmon production has increased dramatically over the past decade, exceeding the wild salmon catch and causing prices to plummet. In order to compete in this new market, Alaska's salmon fishermen have sought creative ways to differentiate wild fish from their penned counterparts. One method that has proven effective in distinguishing the two is regional marketing. Copper River fishermen took the lead in establishing a brand for their catch, proving the enormous potential for niche markets. Now several other regional brands have been established in communities such as Kenai, the Aleutian Islands, and Kodiak.

Most branding organizations are currently dependent on a mix of state and federal grants to fund their marketing efforts. However, these grants are often unreliable, one-time revenue sources. This bill would allow regional seafood development associations to assess themselves between one-half and two percent to provide a steady stream of marketing dollars.

HB 419 creates 12 distinct seafood development regions based on commercial fishing management areas established by the Board of Fish. Under the bill, all the fishermen in a region may vote to participate in an association or it may be limited to a specific fishery or fisheries. Once a regional association is formed, other fisheries can vote themselves into or out of the association, but there can only be one association per region.

As the amount of imported and farmed seafood continues to rise, regional marketing associations will provide a valuable tool for Alaska's commercial fishermen. Regional associations are able to focus on the unique area where the fish is harvested, building on Alaska's reputation for pristine waters that yield superior fish.

23-LS1418\Q  
 Utermohle  
 2/16/04

**CS FOR HOUSE BILL NO. 419( )**  
**IN THE LEGISLATURE OF THE STATE OF ALASKA**  
**TWENTY-THIRD LEGISLATURE - SECOND SESSION**

BY

Offered:  
 Referred:

Sponsor(s): REPRESENTATIVE OGG BY REQUEST OF THE JOINT LEGISLATIVE SALMON  
 INDUSTRY TASK FORCE

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to regional seafood development associations and to regional seafood  
 2 development taxes."

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 \* Section 1. AS 16.43.160(e)(2)(A)(iii) is amended to read:

5 (iii) Department of Community and Economic  
 6 Development - commercial fishing loan program, Alaska Seafood  
 7 Marketing Institute, regional seafood development program, and  
 8 community development quota program;

9 \* Sec. 2. AS 16.43.160(e)(2)(A)(ix) is amended to read:

10 (ix) Department of Revenue - fisheries business tax  
 11 program, fishery resource landing tax program, salmon enhancement  
 12 tax program, seafood development tax program, salmon marketing  
 13 tax program, and dive fishery management assessment program;

14 \* Sec. 3. AS 43.76 is amended by adding new sections to read:



1 fishery may only be levied and collected under (a) of this section if

2 (1) the commissioner of community and economic development has  
3 designated an organization to be the qualified regional seafood development  
4 association for the seafood development region in which the fishery occurs; and

5 (2) the one percent seafood development tax for the fishery is  
6 approved under AS 43.76.370.

7 **Sec. 43.76.365. One-half percent seafood development tax.** (a) A person  
8 holding a limited entry permit or interim-use permit under AS 16.43 shall pay a  
9 seafood development tax at the rate of 0.5 percent of the value, as defined in  
10 AS 43.75.290, of fishery resources taken in a fishery that the person removes from the  
11 state or transfers to a buyer in the state.

12 (b) A 0.5 percent seafood development tax on fishery resources taken in a  
13 fishery may only be levied or collected under (a) of this section if

14 (1) the commissioner of community and economic development has  
15 designated an organization to be the qualified regional seafood development  
16 association for the seafood development region in which the fishery occurs; and

17 (2) the 0.5 percent seafood development tax for the fishery is approved  
18 under AS 43.76.370.

19 **Sec. 43.76.370. Election to approve, amend, or terminate seafood**  
20 **development tax.** (a) A qualified regional seafood development association for a  
21 seafood development region may conduct an election under this section to approve,  
22 amend, or terminate a seafood development tax in one or more fisheries in a seafood  
23 development region after

24 (1) the association pays a fee of \$500 for each fishery in which an  
25 election is held; and

26 (2) the commissioner of community and economic development  
27 approves

28 (A) the notice to be published by the qualified regional seafood  
29 development association;

30 (B) the ballot to be used in the election; and

31 (C) the registration and voting procedure for the approval,

1 amendment, or termination of the seafood development tax.

2 (b) The seafood development tax is levied under AS 43.76.350, 43.76.355,  
3 43.76.360, or 43.76.365 on fishery resources taken in a fishery on the effective date  
4 stated on the ballot if

5 (1) the levy, amendment, or termination of the tax is approved by a  
6 majority vote of the eligible interim-use permit and entry permit holders in the fishery  
7 who vote in an election held under this section; and

8 (2) the election results are certified by the commissioner of community  
9 and economic development under (d) of this section.

10 (c) In conducting an election under this section, the qualified regional seafood  
11 development association shall adopt the following procedures:

12 (1) the association shall hold at least one public meeting, not less than  
13 30 days before the date on which ballots must be postmarked to be counted in the  
14 election, to explain the reason for the proposed seafood development tax, the  
15 amendment of the tax, or the termination of the tax and to explain the registration and  
16 voting procedure to be used in the election; the association shall provide notice of the  
17 meeting by

18 (A) mailing the notice to each eligible interim-use permit and  
19 entry permit holder;

20 (B) posting the notice in at least three public places in the  
21 seafood development region in which the fishery occurs; and

22 (C) publishing the notice in at least one newspaper of general  
23 circulation in the region at least once a week for two consecutive weeks before  
24 the meeting;

25 (2) the association shall mail two ballots to each eligible interim-use  
26 permit and entry permit holder; the first ballot shall be mailed not more than 45 days  
27 before the date ballots must be postmarked to be counted in the election; the second  
28 ballot shall be mailed not less than 15 days before the date ballots must be postmarked  
29 to be counted in the election; the association shall adopt procedures to ensure that only  
30 one ballot from each eligible interim-use permit and entry permit holder is counted in  
31 the election;

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(3) the ballot must

(A) indicate whether the election relates to a seafood development tax under AS 43.76.350, 43.76.355, 43.76.360, or 43.76.365;

(B) indicate the fishery that is or will be subject to the seafood development tax to be levied or amended;

(C) ask the question whether the seafood development tax shall be levied or amended, as appropriate;

(D) indicate the geographic boundaries of the seafood development region in which the seafood development tax will be levied;

(E) provide an effective date for the levy or amendment of the seafood development tax in the fishery; and

(F) indicate the date on which returned ballots must be postmarked in order to be counted;

(4) the ballots shall be returned by mail and shall be counted by the commissioner of community and economic development or by a person approved by the commissioner of community and economic development.

(d) The commissioner of community and economic development shall certify the results of an election under this section if the commissioner determines that the requirements of (a) and (c) of this section have been satisfied.

(e) The rate of the seafood development tax levied in a seafood development region shall be uniform for all fisheries and fishery resources in the region.

(f) If a seafood development tax has not been levied on a fishery resource in a seafood development region, the initial tax levied in any fishery in the region may be set at a rate set under AS 43.76.350, 43.76.355, 43.76.360, or 43.76.365 in accordance with procedures set out in this section. If a seafood development tax is currently levied on fishery resources in any fishery in a seafood development region, an election to approve the initial levy of a seafood development tax in another fishery in the region shall be for a levy of the tax at the current rate in the region. The election to approve the levy of a seafood development tax within a fishery shall be conducted among the eligible interim-use permit and entry permit holders in the fishery.

(g) An election to amend the current rate of the seafood development tax

1 within a seafood development region shall be conducted among the eligible interim-  
2 use permit holders and entry permit holders in each fishery within the region that has  
3 approved the levy of the tax under this section. In an election to amend the current  
4 rate of the seafood development tax within a region, a person shall receive, and may  
5 cast and have counted, a separate ballot for each fishery in the seafood development  
6 region that is subject to the tax for which the person is an eligible interim-use permit  
7 or entry permit holder.

8 (h) Except as provided in AS 43.76.375, an election to terminate a seafood  
9 development tax within one or more fisheries in a seafood development region shall be  
10 conducted under the same procedures established under (a), (c), and (d) of this section  
11 for an election to approve or amend a seafood development tax.

12 (i) In this section, "eligible interim-use permit and entry permit holder" means  
13 an individual who, 90 days before the date ballots must be postmarked to be counted  
14 in an election under this section, is listed in the records of the Alaska Commercial  
15 Fisheries Entry Commission as the legal owner of an interim-use permit or an entry  
16 permit that authorizes the individual to operate commercial fishing gear in the fishery  
17 that is or will be subject to the seafood development tax that is the subject of the  
18 election.

19 **Sec. 43.76.375. Termination of seafood development tax.** (a) The seafood  
20 development tax levied under AS 43.76.350, 43.76.355, 43.76.360, or 43.76.365 may  
21 be terminated by the commissioner of revenue upon majority vote at an election held  
22 under AS 43.76.370. The seafood development tax may be terminated in one or more  
23 fisheries within a seafood development region under this section.

24 (b) The commissioner of revenue shall terminate a seafood development tax  
25 under (a) of this section following an election conducted by the qualified seafood  
26 development association for the seafood development region if

27 (1) a petition is presented to the commissioner of community and  
28 economic development requesting termination of the seafood development tax in a  
29 fishery that is signed by at least 10 percent of the number of persons who are eligible  
30 to vote in an election under AS 43.76.370 to approve the levy of the seafood  
31 development tax in the fishery;

1 (2) an election is held in accordance with AS 43.76.370; the ballot  
2 must ask the question whether the seafood development tax for the fishery shall be  
3 terminated; the ballot must be worded so that a "yes" vote is for continuation of the  
4 seafood development tax and a "no" vote is for termination of the seafood  
5 development tax;

6 (3) a majority of the votes cast in the election by eligible interim-use  
7 permit and entry permit holders are for the termination of the seafood development  
8 tax; and

9 (4) the qualified regional seafood development association for the  
10 fishery provides notice of the election in accordance with AS 43.76.370 within two  
11 months after receiving notice from the commissioner of community and economic  
12 development that a valid petition under (1) of this subsection has been received.

13 **Sec. 43.76.380. Liability for tax on fishery resources sold to a buyer.** (a)  
14 Except as provided under (c) of this section, a buyer who acquires a fishery resource  
15 that is subject to a seafood development tax levied under AS 43.76.350, 43.76.355,  
16 43.76.360, or 43.76.365 shall collect the seafood development tax at the time of  
17 purchase, and shall remit the total tax collected during each month to the department  
18 by the last day of the next month.

19 (b) A buyer who collects the seafood development tax shall

20 (1) maintain records reflecting the fishery in which the fishery resource  
21 was caught; and

22 (2) report to the Department of Revenue by March 1 of each year the  
23 total value, as defined in AS 43.75.290, of the fishery resources caught in each fishery  
24 that the buyer has acquired during the preceding year.

25 (c) A commercial fisherman who transfers possession of a fishery resource to  
26 a buyer who is not a fisheries business licensed under AS 43.75 is liable for the  
27 payment of a seafood development tax levied under AS 43.76.350, 43.76.355,  
28 43.76.360, or 43.76.365 if, at the time possession of the fishery resource is transferred  
29 to a buyer, the seafood development tax payable on the fishery resource has not been  
30 collected. If a commercial fisherman is liable for payment of the seafood development  
31 tax under this subsection, the commercial fisherman shall comply with the

1 requirements under (b) of this section to maintain records and to make reports to the  
2 Department of Revenue. Notwithstanding (a) of this section, a person subject to this  
3 subsection shall remit the total seafood development tax payable during the calendar  
4 year to the Department of Revenue before April 1 after close of the calendar year.

5 (d) The Department of Revenue shall deposit the seafood development tax  
6 collected under AS 43.76.350 - 43.76.399 in the general fund. The legislature may  
7 make appropriations based on this revenue to the Department of Community and  
8 Economic Development for the purpose of providing financing for qualified regional  
9 seafood development associations.

10 **Sec. 43.76.385. Liability for tax on fishery resources shipped from the**  
11 **state.** (a) The owner of fishery resources removed from the state is liable for payment  
12 of a seafood development tax levied under AS 43.76.350, 43.76.355, 43.76.360, or  
13 43.76.365 if, at the time the fishery resources are removed from the state, the seafood  
14 development tax payable on the fishery resources has not been collected by a buyer.

15 (b) If the owner of fishery resources is liable for payment of the seafood  
16 development tax under (a) of this section, the owner shall comply with the  
17 requirement of AS 43.76.380(b) to report the owner's liability for payment of the tax.

18 **Sec. 43.76.390. Exemption.** AS 43.76.350 - 43.76.399 do not apply to  
19 salmon harvested under a special harvest area entry permit issued under AS 16.43.400.

20 **Sec. 43.76.399. Definition.** In AS 43.76.350 - 43.76.399, unless the context  
21 otherwise requires,

22 (1) "buyer" means a person who acquires possession of fishery  
23 resources from the person who caught the fishery resources regardless of whether  
24 there is an actual sale of the fishery resources but excluding a transfer to a person  
25 engaged solely in interstate transportation of goods for hire;

26 (2) "fishery" has the meaning given in AS 16.43.990.

27 \* **Sec. 4. AS 44.33 is amended by adding a new section to read:**

28 **Sec. 44.33.065. Regional seafood development associations.** (a) The  
29 Department of Community and Economic Development shall assist in and encourage  
30 the formation of a qualified regional seafood development association for each  
31 seafood development region identified in (b) of this section for the purpose of

1 promoting and marketing Alaska seafood products harvested in the region. The  
2 commissioner may designate an organization as the qualified regional seafood  
3 development association for a seafood development region if the commissioner  
4 determines that the organization

5 (i) is established for the following purposes:

6 (A) promotion of seafood and seafood by-products that are  
7 harvested in the region and processed for sale;

8 (B) promotion of improvements to the commercial fishing  
9 industry and infrastructure in the seafood development region;

10 (C) establishment of education, research, advertising, or sales  
11 promotion programs for seafood products harvested in the region;

12 (D) preparation of market research and product development  
13 plans for the promotion of seafood and their by-products that are harvested in  
14 the region and processed for sale;

15 (E) cooperation with the Alaska Seafood Marketing Institute  
16 and other public or private boards, organizations, or agencies engaged in work  
17 or activities similar to the work of the organization including entering into  
18 contracts for joint programs of consumer education, sales promotion, quality  
19 control, advertising, and research in the production, processing, or distribution  
20 of seafood harvested in the region;

21 (F) cooperation with commercial fishermen, fishermen's  
22 organizations, seafood processors, the Alaska Fisheries Development  
23 Foundation, the Fisheries Industrial Technology Center, state and federal  
24 agencies, and other relevant persons and entities to investigate market  
25 reception to new seafood product forms and to develop commodity standards  
26 and future markets for seafood products;

27 (2) provides for representation of commercial fishing permit holders  
28 for each fishery in the region that is subject to a seafood development tax levied under  
29 AS 43.76.350 - 43.76.399 on the board of directors of the organization;

30 (3) provides for membership in the organization by any commercial  
31 fisherman who holds a commercial fishing permit for a fishery that is conducted in the

1 region and by other persons and groups, including seafood processors, in the region  
2 who wish to be members of the organization; and

3 (4) is organized as a nonprofit corporation under the laws of the state  
4 for the purpose of marketing and promoting seafood products taken in the region and  
5 seafood products taken in fisheries subject to a seafood development tax levied under  
6 AS 43.76.350 - 43.76.399.

7 (b) Seafood development regions are established for each of the following  
8 regions of the state and are made up of the designated commercial fishing  
9 management areas established by the Board of Fisheries in accordance with the  
10 boundaries of those areas as adopted by the Board of Fisheries:

11 (1) Southeast Alaska seafood development region -- Southeastern  
12 Alaska area and Yakutat area;

13 (2) Prince William Sound seafood development region -- Prince  
14 William Sound area;

15 (3) Cook Inlet seafood development region -- Cook Inlet area;

16 (4) Kodiak seafood development region -- Kodiak area;

17 (5) Alaska Peninsula seafood development region -- Alaska Peninsula  
18 area;

19 (6) Aleutian Islands seafood development region -- Aleutian Islands  
20 area;

21 (7) Chignik seafood development region -- Chignik area;

22 (8) Atka-Amlia Islands seafood development region -- Atka-Amlia  
23 Islands area;

24 (9) Bristol Bay seafood development region -- Bristol Bay area;

25 (10) Kuskokwim seafood development region -- Kuskokwim area;

26 (11) Yukon-Northern seafood development region -- Yukon-Northern  
27 area and Kotzebue area;

28 (12) Northern Sound-Port Clarence seafood development region --  
29 Norton Sound-Port Clarence area.

30 (c) An organization may be designated as the qualified regional seafood  
31 development association for more than one seafood development region.

1           (d) A qualified regional seafood development association for a fishery may  
2 request state financial assistance from the department to aid the seafood development  
3 programs of the association.

4           (e) A qualified regional seafood development association requesting state  
5 financial assistance shall submit an annual financial report to the department on a form  
6 provided by the department. The department may require that a qualified regional  
7 seafood development association use a uniform system of accounting. A qualified  
8 regional seafood development association requesting state assistance shall submit an  
9 annual budget to the department on or before a date specified by the department.

10           (f) The department may adopt regulations necessary to implement this section.

11           (g) In this section, "fishery" has the meaning given in AS 16.43.990.

## CS changes for HB 419

Please contact staff member Melissa Dover at x3820 if you have questions on any of the CS changes.

**1) Sec. 43.76.370(a)(1) - \$500 application fee**

In response to concerns expressed by the Department of Community and Economic Development (DCED), we have added a \$500 application fee for each fishery that decides to hold an election. The application fee will help cover the cost of the election.

**2) Sec. 43.76.370(e)-(g) – one tax rate per region**

This is clarifying language to ensure that all fisheries participating in a regional seafood development association are taxing themselves at the same rate. It addressed the Dept. of Revenue concern that they could be collecting different rates for fisheries within the same association. So, when a fishery opts into an association, they opt in at the current tax rate. Once in, all the members of the association can vote to raise or lower the tax rate to meet their current needs.

**3) Sec. 43.76.380(c) – closing the “purchaser loophole”**

This language closes what the Dept. of Revenue refers to as the “purchaser loophole.” In the event that a fisherman sells his product to someone who is not licensed fisheries business, the fisherman is then liable for payment of the tax. For example, a fisherman direct-marketing his product to consumers would be liable for paying the tax.

**4) Sec. 44.33.065(a)(3) – ensuring inclusion in an association**

This provision ensures that any fisherman or other persons or groups wanting to participate in the regional association can become members. This addressed the concern that an association could choose to exclude an individual or group.



[Click here to return to the original story](#)

## Fishermen unite to create regional brands, revive sagging salmon sales

Monday, March 3, 2003

By **DAN JOLING**  
**THE ASSOCIATED PRESS**

ANCHORAGE - In the new world of Alaska regional seafood marketing, sockeye salmon will be on ice seconds after being plucked from the sea. They'll be coddled like newborns to prevent bruising.

And they'll have brand names that remind customers of where they come from: Aleutia. Kenai Wild. Copper River. Kodiak.

Desperate to revive sales that have tanked because of sluggish foreign economies and competition from farmed fish, some Alaska salmon fishermen are banding together to create regional brands for customers willing to pay a premium for fresh, wild fish.

"The whole idea of the project is to develop a situation where the fishermen in that region have a long-term relationship with a specific group of customers," said Marc Jones, executive director of the Alaska Fisheries Development Foundation, which helped launch the Aleutia brand with fishermen in the Aleutians East Borough.

Along with names that fishermen hope will catch on, the newest brands sport third-party inspection to ensure quality.

"Otherwise, you're just talking about a cute sticker," Jones said.

Alaska fishermen have not always had to market so hard.

In the early 1980s, Alaska supplied nearly half the world's salmon. Demand gave rise to fish farms in Norway, Canada and Chile. Owners of pen-reared Atlantic salmon began delivering fresh fish any time of year, in any size fillet desired by restaurant chefs or grocers. And consumers didn't seem to care whether their fish grew up eating pellets.

In 2000, Alaska supplied just 19 percent of world's salmon.

The state has been slow to react. Legislators now are talking about changes in a state-regulated fishing system designed to maximize the

number of people fishing, which include built-in inefficiencies such as limits on the size of fishing boats.

The state's official marketing arm, the Alaska Seafood Marketing Institute, is prohibited from promoting a particular region, company or fisherman's catch. Instead, it has made its research and quality standard resources available to regional marketers, said Ray Riutta, executive director.

The first region to push a brand was Cordova at the southeast end of Prince William Sound, a few miles from the salmon-rich Copper River.

The area established a niche market during the past 25 years by promoting itself as Alaska's first major salmon run. After the long winter, the first catch of Copper River kings and sockeye command premium prices as they're whisked off boats and jetted to Seattle and other markets.

Alaskans launched two other regional brands last year.

Cook Inlet fishermen caught salmon for the Kenai Wild label. With help from the Kenai Peninsula Borough, the Alaska Manufacturers Association and the state, Cook Inlet Salmon Brand Inc. is planning a five-year marketing program.

Farther west, fishermen at the tip of the Alaska Peninsula and the start of the Aleutian Islands launched Aleutia brand.

Aleutia fishermen want to take advantage of one of Alaska's latest runs of sockeye, delivering fresh fish in September when most other fishermen have hung up their nets.

To kick off the program, the Alaska Fisheries Development Foundation, backed by federal grants, last fall bought sockeye graded out as premium for 95 cents per pound, more than double the 45-cent going rate.

Kenai Wild and Aleutia promoters hired private third-party inspectors from Seattle to certify the quality of fish. Before any were caught, the inspectors trained fishermen to handle them to meet the industry's highest standards.

Trident Seafoods custom processed Aleutia fish at Sand Point in the Aleutians. To be graded premium, fish had to meet standards set by buyers: fish bled while they were still alive, immediate icing, gently handling to avoid bruising and scale loss. Salmon had to be of good, red color - the easiest requirement for wild Alaska sockeye. Fillets had to be free of cuts inflicted by nets or sea lions.

The foundation hoped to buy 100,000 pounds of sockeye. A small run resulted in the foundation purchasing just 15,000 pounds, Jones said.

The smaller amount may have been a blessing in disguise as logistics could be worked out without being overwhelmed by the higher volume of fish. Among the challenges: Everyone who touches the fish - fishermen,

processors, transporters, wholesalers and marketers - must be committed to maintaining the high standards for a highly perishable product. It doesn't help that each component is a separate business.

"Someone's got to keep them all in their traces," Jones said.

Another challenge is moving fresh fish quickly at a reasonable expense. It cost 92 cents per pound to transport salmon from Sand Point to Boston last year, Jones said. A whopping 60 cents of that involved moving the fish from Sand Point to Anchorage.

Mark Powell, president of Cook Inlet Salmon Branding, said the first year of the Kenai Wild project showed that many more fish than originally thought possible can qualify as premium grade if fishermen adhere to handling standards.

Webber of Cordova applauds the marketing efforts in other regions and expects it to be a growth area for Alaska fishermen.

"I'm glad to see the rest of the state wants to step up to the quality plate," Webber said.



## Office of Fisheries Development

### Alaska Regional Salmon Marketing Mini-Grant Program Recipients

[Back to  
Grants Page](#)

The Alaska Department of Community and Economic Development and the University of Alaska/Kodiak Fishery Industrial Technology Center received funding from the USDA-Cooperative State Research, Education and Extension Service (CSREES) in 2002 to begin a three-year mini-grant program to facilitate the regional marketing of Alaska salmon. In February 2002, five applicants received funds from the first grant cycle. In April 2003, six applicants received funds from the second cycle. A third cycle will begin in the winter of 2003/2004.

The Regional Salmon Marketing Mini-Grant Program is designed for fishing organizations or regional groups to develop programs for marketing salmon harvested from a defined region of Alaska. Applicants are asked to coordinate with other salmon organizations within the specified region to avoid redundancy and encourage regional support. Funds may be used for advertising, test product giveaways, marketing travel, label design, consultation and other marketing activities. Among the criteria for evaluating the applicants are: cooperation between groups within the region, ability to produce high quality salmon, strategy for regionally defining the area's salmon; and the quality and effectiveness of the marketing plan.

Following are summaries describing the achievements of the 2002 awardees and the goals of the 2003 awardees. [2003 Regional Salmon Marketing Mini-Grant Program Information and Application.](#)

[About regional marketing.](#)

### Alaska Peninsula - Aleutians East Borough



The Aleutians East Borough received \$54,500 from the program in 2002 to market "Area M" salmon from around the Alaska Peninsula and the eastern Aleutian Islands. A salmon marketing committee formed early in the year and included community members, fishermen and one processor; these committee members have since been in frequent contact to discuss the progress and direction of the project. Aleutians East Borough collaborated with several other local organizations as well as the Alaska Fisheries Development Foundation (AFDF) and intends to continue working with local processors and other interested parties. The program's marketing plan distinguishes Area M salmon from other salmon as "ocean-caught" in the wilds of the Aleutians, harvested by local Aleut families and as the last Alaska salmon of the season. The following goals were accomplished during the first year of the program:

- Rigorous quality standards that surpass ASMI's grade A were instituted and local processor Orca Bay began purchasing high quality sockeye

salmon.

- Aleutians East developed the brand "Aleutia" for the region's salmon and produced an award-winning logo.
- The Aleutia brand was advertised at the Boston Seafood Show and many buyers showed interest.
- Quality handling workshops by Seafood Inspection Services and HACCP training took place.
- A flyer and brochure were produced in early 2003.

After a successful first year, Aleutians East Borough applied for regional marketing funds under the 2003 Regional Salmon Marketing Mini-Grant Program and received \$20,000. With these funds, the program will continue to promote the Aleutia brand by printing brochures, quality seals and labels and meeting regularly. The Aleutia program will also form a non-profit corporation to carry on the regional marketing of the area's salmon independent of the Borough and AFDF.

Aleutians East Borough reported the following observations:

"It...[is] difficult and time consuming...[to] achieve consensus on "creative" and "artistic" decisions, i.e. logo and product name. What appeals to fishermen and community members is not necessarily what appeals to consumers and therefore marketing professionals should be consulted.

Buyers don't necessarily want seafood that meets some constructed quality standards. They know what they want in terms of quality and they are the best judges of that quality. So while they appreciate efforts to properly care for fish, their specs override any quality standards and make quality standards unnecessary."

### **Bristol Bay - Bristol Bay Economic Development Corporation**



all levels of the program.

One of six regional Community Development Quota (CDQ) groups, the Bristol Bay Economic Development Corporation used their 2002 grant of \$130,000 to begin building regional marketing efforts for Bristol Bay salmon. An initial consultative group was formed in Bristol Bay including BBEDC representatives and representatives from four major area processors. Representing 17 villages around Bristol Bay, BBEDC works to involve local fishermen at

In addition to setting apart Bristol Bay salmon, they encourage sub-regional marketing efforts for particular runs of salmon, (i.e. Naknek River reds). All local fishermen are allowed to take part in the marketing program and to use the Bristol Bay regional trademarks and promotional materials provided they adhere to rigorous quality standards which meet or exceed ASMI's grade A. BBEDC accomplished the following goals with their first year of grant funds:

- Consultants were hired to develop a quality assurance program.
- PR/program development consultants were hired.
- Promotional materials were developed and printed for the program.
- A promotional web site was created and launched.
- The Bristol Bay logo was advertised in Natural Products EXPO East show.

BBEDC received \$90,000 from the 2003 Regional Salmon Marketing Mini-Grant Program. With these funds, BBEDC will continue to develop and promote the Bristol Bay wild salmon brand through advertising, point of sale returns, quality assurance, test product giveaways and trade show follow-ups with potential buyers.

BBEDC had the following comments about regionally marketing seafood:

"Involving resident fishermen in the face-to-face marketing of their own salmon helps them understand the market demands, helps the customers appreciate the product better and builds the region's capacity for direct marketing of seafood products.

The need to educate the market about the differences between wild salmon from farmed salmon is critical to elevating the ex-vessel price. Through our presence at natural foods Trade Shows, we are confirming the basic premise of this direct, regional marketing effort: that buyers will pay more for the Authenticity of our Bristol Bay Watershed story; high quality, wild salmon purchased as directly as possible from resident harvesters of the Bristol Bay watershed will overcome the market saturation of farmed salmon. We will now see if we can translate this interest into increased returns to our resident fishermen."

### Copper River - Cordova District Fishermen United



The Cordova District Fishermen United (CDFU) received \$45,500 of funding in 2002 to support their regional marketing efforts for Copper River salmon. CDFU capitalizes on the natural qualities of Copper River salmon and markets them as wild, strong fish full of rich oils for the 300 mile journey up the clean, glacial Copper River. They also promote the sustainability of the resource and the rugged Alaskans who harvest the fish. CDFU completed the following goals during the first year of the program:

- Designed, produced and printed promotional banners and point-of-sales material for Copper River salmon.
- Program contact list was updated and flyers sent to notify participants of new materials.
- The Copper River Salmon web site was revised and updated.
- Outer Rim Publications was contracted to write a business plan with an emphasis on the eventual self-sufficiency of the program.

CDFU evaluated the effectiveness of their promotions in 2002 and received numerous requests for a video about the region's salmon for use in supermarkets and other marketing venues. With \$20,000 from the 2003 Regional Salmon

Marketing Mini-Grant Program, CDFU will produce a video loop as well as continue to advertise and publish promotional material.

CDFU gave the following insight into regionally marketing Copper River salmon:

"Being able to meet the needs of all the various niche marketers of Copper River salmon, as well as supporting the traditional users, is an important part of effective promotional support. This will be accomplished through increased diversification of materials and information available, including materials specific for wait-staff, smaller retail markets and wholesalers."

### **Chignik - Norquest**

Norquest was awarded \$50,000 in 2002 to market Chignik area salmon. The program was meant to emphasize quality handling for fishermen and processors with all participants required to meet certain standards to be eligible for marketing under the program. Funds were intended to create a label and graphic designs and to search out promising niche markets where wild salmon was already sold. Selling points specific to Chignik salmon included a rationalized fishery and the picturesque community with its unique location.

Norquest intended to assemble an advisory committee consisting of local fishermen, interested community members and processors. Participating members were meant to share their insight and lead the branding effort. Due in part to the often contentious relationships between fishermen and processors in the Chignik area, Norquest was unable to form the advisory committee and gain the support of local producers. It may be that an individual business, be it a harvester, processor or other, is not the appropriate organization to lead this kind of effort. Organizations that perform more economic development functions may be the most appropriate manner of entity to facilitate a regional marketing program. Norquest rescinded their request for funds.

### **Kenai Peninsula – Kenai Peninsula Borough**

With funding from several sources, including \$120,000 from the 2002 Regional Salmon Marketing Mini-Grant Program, the Kenai Peninsula Borough embarked on a multi-year program to market Cook Inlet sockeye salmon. Participating fishermen and processors must adhere to strict quality standards including mandatory icing, chilling, bleeding, handling procedures and grading. This program made the following progress during its first year:

- Developed the brand name "Kenai Wild" along with a logo and subheads and printed 5000 labels.
- Designed an illustrated fact sheet and printed 5,000 copies.
- Sent out 400 pounds of branded product to potential customers.
- Trained two locals in quality inspection and 40 fishermen and four processors through quality control training.
- Developed contacts and prepared labeled product for mid-winter promotions.
- Certified 23,000 lbs. of Kenai wild product.

- Tested Kenai wild product in 22 retail and food service markets.

The Kenai Peninsula Borough also hopes to influence salmon management in the area in order to spread out the fishery and increase salmon quality and service. The branding project will focus on the unique aspects of the local salmon and salmon industry for promotion to high-end niche markets.

Kenai Peninsula Borough discovered in the first year of their program that early winter advertising was difficult, as around the holiday season many buyers were too busy promoting seasonal specials to discuss new promotions. They did find a strong positive attitude toward wild salmon, however, and pointed out that all participating buyers emphasized the positive aspects of wild salmon without disparaging farmed salmon. They are contemplating instituting quality control beyond the processing plant, as much otherwise acceptable product was rejected due to poor workmanship.

The Kenai Wild program will continue in 2003 and beyond with assistance from other funding sources. [Cook Inlet Salmon Branding Project web site.](#)

### **Kodiak -- Kodiak Chamber of Commerce**

The Kodiak Chamber of Commerce received \$130,000 under the 2003 Regional Salmon Marketing Mini-Grant Program to brand and market Kodiak pink and chum salmon. They established the Kodiak Brand and Marketing Committee (KBMC) to lead the effort.

The KBMC's quality program will include training for fishermen, tenders and processors, creation of quality standards and the certification at least 20,000 lbs. of product in the first year. This program focuses on pink salmon fillets and will conduct product research to determine consumer preferences for packaging, format, pin-boning and other variables. With this information, the KBMC hopes that at least two retail chains will buy product regularly. Funds will also be used to create a brand, logo, labels, brochures, fact sheet and other promotional materials. KBMC hopes to become a stand-alone organization in the future to lead the regional marketing of all Kodiak's salmon.

### **Kuskokwim Bay -- Coastal Villages Region Fund**



One of six regional Community Development Quota (CDQ) groups, Coastal Villages Region Fund received \$120,000 from the 2003 Regional Salmon Marketing Mini-Grant Program to market Kuskokwim Bay salmon. In 2002, Coastal Villages developed the Kuskokwim Bay/Coastal Villages brand and logo and established relationships with Wildcatch and Indian Valley Meats to co-brand their fish. Wildcatch was attracted to Kuskokwim product in part because the low volume fishery and mandatory slush ice for all harvesters has a high potential for producing quality fish. Wildcatch caters to the natural/organic foods market by partnering with major natural foods retailers. Coastal Villages and Wildcatch are also considering

partnering to produce innovative products such as salmon baby food.

Indian Valley Meats is an established value-added processor in Alaska and brings to the partnership training for processors, experience producing value-added products and a market for the Kuskokwim's lower value chum salmon. Salmon jerky, sticks and burgers are currently co-branded and more products are being developed. Coastal Villages intends to use their grant funds to attend trade shows, establish distributorships with natural food retailers, advertise, produce promotional material, meet with potential European buyers, earn the Alaska Manufacturers Association's "Alaska Quality Seal," bring buyers to the region and develop packaging for new Indian Valley Meats co-branding products.

### **Stikine River -- Wrangell Community Salmon Marketing Association**

With \$20,000 from the 2003 Regional Salmon Marketing Mini-Grant Program, the Wrangell Community Salmon Marketing Association intends to develop a marketing business plan for Stikine River salmon. Quality specification will be developed, fishermen and industry leaders surveyed for input, target markets identified, a logo developed and a plan formulated for the production of labels and promotional materials.

Promotion of the region's salmon will complement community projects designed to increase the quantity and diversity of local salmon products, including the construction of a value-added processing facility/cold storage. The committee will draw upon its unique fishing history, dating back to Native fishermen, to create a regional identity for its product. Recognizing the need for high quality salmon, the program will include strong quality control and grading procedures.

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**HB**

**444**

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 444(FSH)  
 (H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Direct Marketing Fisheries RDU Revenue Programs & Services  
Business Component Tax Division  
 Sponsor Representative Wilson  
 Requester House Fisheries Component No. 2476

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services		24.6	49.2	49.2	49.2	49.2
Travel						
Contractual						
Supplies		0.5	1.0	1.0	1.0	1.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>		<b>25.1</b>	<b>50.2</b>	<b>50.2</b>	<b>50.2</b>	<b>50.2</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	**	**	**	**	**	**
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF		25.1	50.2	50.2	50.2	50.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>		<b>25.1</b>	<b>50.2</b>	<b>50.2</b>	<b>50.2</b>	<b>50.2</b>

Estimate of any current year (FY2004) cost: 0.0  
 Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time		1	1	1	1	1
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

\*\* See page 2

Prepared by: Chuck Harlame t Phone 465-2320  
 Division Tax Division Date/Time 2/17/04 8:48 AM  
 Approved by: Steve Porter, Deputy Commissioner Date 2/17/2004  
 Agency Department of Revenue

## FISCAL NOTE #1

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

BILL NO. CSHB 444(FSH)

### ANALYSIS CONTINUATION

#### Revenue Analysis

##### **Fisheries Business Tax**

We estimate that during the calendar year 2002 there were 120 fisheries business taxpayers who would have operated under the direct marketing fisheries business license authorized by the bill. Together this group reported taxable value of just over \$2.4 million with a combined tax liability of just over \$120,000 at current rates. Existing rates for floating processors are 5% for established species and 3% for developing species. Based on their 2002 activity, the tax liability of this group would be approximately \$70,000 at the 3% and 1% rates established by this bill. The impact of the lower tax rates, standing alone, would have been to decrease revenue to the state and local governments by approximately \$50,000. Nevertheless we expect the overall revenue impact of the bill to be neutral or positive.

We believe that the impact of the rate reductions will be offset by the effect of other provisions within the bill. The "exclusion" under AS 43.75.017 is not in fact an exclusion from taxation. The "exclusion" merely transfers the responsibility for the tax to the licensed fisheries business who purchase processed fish from the fisherman. By making the exclusion mandatory the bill will reduce confusion over who is the taxpayer under the law. We expect that the definition of taxable value will be perceived by the affected taxpayers as more fair than existing law. The bill also simplifies enforcement of the complex issue of taxable value. These factors strongly influence tax compliance, accordingly we expect revenue from improved compliance to offset the reduced fisheries business tax rates.

##### **Salmon Enhancement & Marketing Taxes**

Current law places the burden for collection of salmon enhancement and marketing taxes solely on the buyer. Buyers in casual sales are often unaware of the requirement which is impractical to enforce. The bill addresses this issue by requiring fishermen who sell salmon to unlicensed buyers to pay their salmon enhancement and marketing taxes directly on a single annual return. We expect between 300 and 400 new taxpayers as a result of this change but are unable to estimate associated revenues.

##### **Cost Analysis**

For 2003 we issued 310 fisheries business licenses to fishermen who we believe will qualify for the direct marketing fisheries business license under this bill. Many of these fishermen did not engage in taxable activity, but obtained the license in the event that an opportunity or need to process or export their catch arose during the year. Of these 310 licensees, 194 provided security for estimated tax totaling just over \$129,000. This data implies that direct marketing activity in 2003 was higher than in 2002. We expect that the bill will further increase the number of fishermen who participate in processing and direct marketing activity. The number of license applications and fisheries business tax returns will increase proportionately.

The bill authorizes direct marketers to report taxable value at the prevailing price in the region or market area instead of their actual receipts for the finished product. The prevailing price is used to prevent the taxation of value added by the direct marketer and thus to measure their tax base consistent with the rest of the industry. The bill provides the department with authority to restate their value consistent with market transactions in the area if the reported value is inconsistent with those arms length transactions.

The overall number of fishermen who are responsible for filing salmon enhancement and marketing tax returns will increase by three to four hundred based on 2003 Catcher Seller permits issued by ADF&G. Existing direct marketers will file fewer salmon enhancement and marketing tax returns. We estimate that the net increase in salmon enhancement and marketing tax returns will be between 150 to 250 annually based on current activity.

We request funding of a Tax Technician II position beginning the second half of FY06 representing the combined efforts for licensing, compliance, and return processing under the bill.

# ALASKA STATE LEGISLATURE



REPRESENTATIVE PEGGY WILSON

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## SECTIONAL ANALYSIS

HB 444

**"An Act relating to direct marketing fisheries businesses"**

- Sec. 1** Extends Fisheries Business Tax Exclusion. In existing law, FBT must be paid by a person who first processes the fish. An exemption exists for fishermen who freeze fish onboard but who then sell the product to a processor. This exemption was tailored to trollers whose fishing operations often demand that they freeze at-sea even though they are not direct marketing their product. Sec. 1 of this bill extends this exemption to all vessels that process at-sea then sell to a processor. The Department of Revenue asked for this clarification of tax responsibility. Nothing in this section will affect state revenue.
- Sec. 2** Reduces the Fisheries Business Tax rate for direct marketers from 5% to 3%. Also allows Department of Revenue to establish the market value of fish products for taxation of direct marketers based on average prices paid by processors in the region.
- Sec. 3** Related to Sec. 1. Would allow fishermen who do some processing on board their vessel, but who then sell it to a processing company rather than direct marketing it, to be exempt from the Fisheries Business Tax. The "licensed fisheries business," meaning the processor, will pay the tax. As in Section 1, the department asked that tax liability in this production scenario be clarified and state revenue is unaffected.
- Sec. 4** Provides for a new Direct Marketing Fisheries Business License to be issued by the Department of Revenue. This will allow fishermen who own or lease a vessel of 65 ft. or less to catch, process and sell both processed or unprocessed fish products in Alaska or out-of-state.

Direct Market businesses would be prohibited from buying and processing fish from other fishermen under this license. A fisherman who wishes to participate in these types of activities still has the ability to become a buyer or processor under the current regulations.

Identifies tax liabilities and establishes an annual application fee of \$25 and reporting requirements.

- Sec. 5** Defines "value" for taxation purposes as the prevailing price paid by processors for a given product in the same region or market area. This is a key section of the bill in that it means direct marketers will be taxed at the "grounds price" rather than having to base their taxes on wholesale and retail prices. Section 5 corrects the existing problem whereby direct marketers are paying higher taxes for adding value to fisheries resources.
- Sec. 6-15** Provides for a more user-friendly payment system by collecting all fisheries taxes for direct marketing fisheries businesses by April 1 each year. In addition to the fisheries business tax, these may include the salmon enhancement tax, salmon marketing tax, dive fishery assessment, salmon fishery assessment, and permit buy-back assessment. Currently, monthly payments that inconvenience fishermen during the harvesting season are required for the hatchery and marketing taxes.
- Sec. 16-18** Establishes effective dates for January 1, 2005.

## SHORT DEFINITIONS OF TERMS

### SB 286 / HB 444

**Direct Marketer** - In the fishing industry, direct marketers are fishermen who catch and sell their own products. The products may be frozen, filleted or processed in other ways, or may simply be fresh seafood. Direct marketing entails selling to the public, to distributors, restaurants or grocery stores.

**Catcher/Seller** – This is a type of direct marketing operation. Catcher/sellers get a license at no cost from ADF&G that allows them to sell unprocessed product directly off their vessel at the dock to the general public. SB 286 / HB 444 will close a loophole in existing law that allows catcher/sellers to avoid taxation.

**Catcher/Processor** – There are many kinds of catcher/processors in the Alaska commercial fishing industry. A simple definition is a vessel that is capable of both catching fish and processing on board. This bill will affect catcher/processors of 65 feet and less such as some trollers and shrimpers who freeze product on board.

**Floating processor** – Also known as “floaters,” these are large ships, essentially mobile fish plants, with on board processing lines. While the sponsor in no ways means to disparage this type of business, the intent of SB 286/HB 444 is to reform state taxation to recognize the differences between floaters and small direct marketing vessels. There is no distinction in current tax law.

**Exporter** - A direct marketer who exports unprocessed fishery resources from Alaska. An example might be a Dungeness crab fisherman who ships his crab live by airfreight to markets on the west coast. Such an exporter is currently already paying 3% fisheries business tax but will benefit from SB 286/HB 444 through the clarification of the value he pays that 3% on.

**Fisheries Business Tax (FBT)** – The oldest tax in the state, imposed in 1913, when the Territorial Legislature decided to tax salmon canneries. Currently, the tax rate is 3% on shore-side processors and 5% on “floating fisheries businesses,” including small direct marketers. This bill will clarify the FBT tax picture for direct marketers.



# UNITED FISHERMEN OF ALASKA

February 16, 2004

211 Fourth Street, Suite 110  
Juneau, Alaska 99801-1172  
(907) 586-2820  
(907) 463-2545 Fax  
E-Mail: [ufa@ufa-fish.org](mailto:ufa@ufa-fish.org)  
[www.ufa-fish.org](http://www.ufa-fish.org)

Representative Paul Seaton  
Chair, House Special Committee on Fisheries  
Alaska State Legislature  
State Capitol (Mail stop 3100)  
Juneau, AK 99801-1182

Dear Representative Seaton,

United Fishermen of Alaska supports HB444 relating to the Direct Marketing Fishery Business Tax. Direct marketing is a progressive approach to revitalizing the seafood industry, and HB 444 provides a much needed for the clarification of the tax situation for direct marketers and parity with shore-based processors. Fishermen all over the state are discovering new and innovative ways of promoting their product directly at a higher market value, thus providing local economic growth and increased state revenue. Direct marketing also creates new marketing channels as more people are given the opportunity to sample and purchase the highest quality seafood in the world. If we are going to turn this industry around, it's vital that we pave the way for independent innovative fishermen that seek change and are willing take risks for the greater good of Alaska.

HB 444 and its companion bill SB 286 are the result of many years of effort by innovative fishermen dedicated to the opportunity to increase the value of their catch. The proposed changes required the input and coordination with the Alaska Department of Fish and Game, Department of Revenue, Department of Environmental Conservation, and consideration of the requirements of the U.S. Environmental Protection Agency. We feel that HB 444 and SB 286 represent a finely tuned balance within these agencies' requirements to best benefit fishermen and the State of Alaska.

United Fishermen of Alaska represents 33 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support HB 444 and thank you for your attention to this matter.

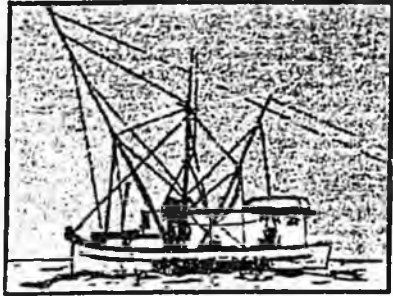
Sincerely,

Bob Thorstenson, Jr.  
President

CC: Representative Peggy Wilson

#### MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Druggers Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Armstrong Keta • At-sea Processors Association  
Bristol Bay Reserve • Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cordova District Fisherman United  
Crab Rationalization and Buyback Group • Douglas Island Pink and Chum • Groundfish Forum • Kenai Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association  
Kodiak Seiners Association • North Pacific Fisheries Association • Northern Pacific Scallop Cooperative • Northern Southeast Regional Aquaculture Association  
Old Harbor Fishermen's Association • Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Purse Seine Vessel Owners Association  
Seafood Producers Cooperative • Southeast Alaska Regional Dive Fisheries Association • Southeast Alaska Seiners Association • Southern Southeast Regional Aquaculture Association  
United Catcher Boats • United Salmon Association • United Southeast Alaska Gillnetters • Valdez Fisheries Development Association • Western Gulf of Alaska Fishermen



# Alaska Trollers Association

130 Seward St., No. 211  
Juneau, Alaska 99801  
(907) 586-9400  
(907) 586-4473 Fax

February 16, 2004

Representative Paul Seaton, Chairman  
House Special Committee on Fisheries  
Alaska State Legislature  
Juneau, AK 99801

Dear Representative Seaton:

The **Alaska Trollers Association** supports **HB 444**, which seeks to provide tax equity and clarity for commercial fishermen who direct market seafood products.

In these challenging price times, more commercial fishermen are choosing to market all or part of their catch directly to the consumer, as a means to add value to their businesses. Direct marketing is an increasingly important option for small boat fishermen, many of whom have lost markets in recent years. However, the current tax structure discourages efforts to add value to seafood products sold by individuals. Furthermore, the regulatory and administrative processes for direct marketing are cumbersome and do not quite fit the nature of these small operations.

By supporting cooperative efforts to correct problem areas, and adopting some relatively simple changes, the state of Alaska can take positive action to support small business; reduce agency staff time and state spending; promote market diversification of Alaskan seafood; and, bolster Alaska's economy, particularly in rural communities.

As you know, the Salmon Legislative Task Force has been working to encourage small business development and create new seafood marketing opportunities. To that end, the Salmon Task Force Marketing Committee appointed a subcommittee to develop ideas and legislation to better accommodate the specific needs and circumstances of individual permit holders who direct market seafood.

The subcommittee met via statewide teleconference and in working groups for nearly two years. Advice was sought from direct marketers, the processing sector, DOR, ADFG, and DEC. Many administrative and legislative tasks have been identified. HB 444 is a direct result of this work. If passed, it will go a long way towards resolving imbalances that exist in our tax program. For instance, a small operator who freezes salmon at sea pays 5% fisheries business tax, just like the big, offshore fish processors. The product is not only taxed at a rate 2% higher than what shorebased processors pay, but the tax is calculated on the processed value of the product. In

contrast, a shorebased processor pays 3% fisheries business tax based on the exvessel (raw fish) value of the product they purchased. ATA believes this tax inequity must be resolved.

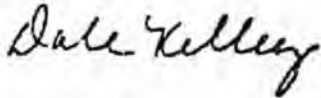
In addition to the rate of tax paid, the bill also clarifies who pays taxes and under what circumstances. This has been a confusing matter for all involved.

The bill establishes an annual timeframe for taxation, which will be extremely convenient for both fisherrnen and DOR. A primary goal of the Marketing Subcommittee is to streamline process for everyone involved, which should mean reduced cost and workload for fishermen and agency staff. Committee members have expressed an interest in continuing the project until all legislative and administrative tasks are complete.

There are many tasks ahead to develop a well-articulated direct marketing program and passage of HB 444 will be a critical component. Hopefully you agree with us and will lend your support to this bill, as well as future actions to improve the direct marketing program and the relationship between industry and the state.

If I can provide information or perspective on this and other matters of importance to the seafood industry, please don't hesitate to call.

Best regards,

A handwritten signature in cursive script that reads "Dale Kelley".

Dale Kelley  
Executive Director



FEB 13 2004

**United Southeast Alaska Gillnetters**

P.O. Box 23378, Ketchikan, AK 99901

Phone &amp; Fax (907) 247 2471

Email: usa\_gillnetters@all.net

February 13, 2004

The Honorable Paul Seaton, Chair  
House Special Committee on Fisheries  
Alaska State Capitol, Room 428  
Juneau, AK 99801

Send Via Fax: 465-3472

Dear Representative Seaton,

The United Southeast Alaska Gillnetters Association (USA<sup>G</sup>) represents about 150 small business owners who catch salmon by drift gillnetting in Southeast Alaska and market salmon throughout the United States. Many of our members participate in other fisheries such as crab, shrimp, longline, and dive fisheries. We strongly support House Bill 444 that will create a "direct marketing fisheries business license." In this era of low salmon prices, fishermen must be permitted to increase the value of their catch by dressing, processing and marketing it to create added value to the product resulting in increased income for the fishermen. This legislation is important as it puts the direct marketing fisherman on a level field with other businesses processing and marketing salmon and seafood products. It does this by defining the basis of the "value" of their catch in section .290(7)(A). The practical result of this value definition will be that the direct marketing fisherman will be taxed on the grounds price of the fish he has caught, not on the elevated value his/her fish are sold for which includes the extra effort and risk the fisherman has undertaken in processing and marketing his product. The direct market fisherman will still pay a three percent processing tax on the value of his/her catch, as defined in section .015(d)(2) of this proposed legislation, as well as any applicable enhancement or marketing taxes.

In summation, this bill is very important for individual fishermen who market their own catch and USAG supports its passage and urges the House Special Committee on Fisheries to approve it. We also want to express our appreciation to Representative Wilson for introducing this legislation in the House.

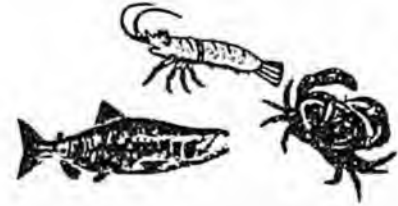
Yours truly,

Kenneth Duckett  
Executive Director

cc: Representative Wilson Via Fax: 465-3175

## **Southeast Alaska Fishermen's Alliance**

9369 North Douglas Highway  
Juneau, AK 99801



Phone 907-586-6652

Fax 907-586-5648

E-mail: [seafa@gci.net](mailto:seafa@gci.net)

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February 18, 2004

Honorable Paul Seaton, Chair  
House Special Committee on Fisheries  
Alaska State Legislature  
State Capitol, Mail Stop 3100  
Juneau, AK 99801

RE: HB 444- Direct Marketing Fisheries Businesses

Dear Representative Seaton,

The Southeast Alaska Fishermen's (SEAFSA) Alliance fully supports HB 444. The Southeast Alaska Fishermen's Alliance (SEAFSA) is a non-profit fishing organization formed in 2000 to represent our members involved in the salmon, crab, shrimp and longline fisheries of Southeast Alaska. We have been actively working on direct marketing issues since SEAFSA was formed and our Executive Director and many members have been working on direct marketing issues for 8+ years. We believe that this legislation will have the most direct economic benefit to fishermen that comes out of the salmon industry task force.

This legislation was worked on two years in a sub-committee of the salmon task force marketing committee with industry, agencies and any public who wished to be involved. To get legislation that was workable and made sense, compromises were made on all sides of the issues and we came out with legislation that the majority approves of. Dept of Revenue especially worked hard on this legislation to come up with a workable solution and deserves recognition for their work on this and the other administrative changes they have made that improves the business climate for direct marketers.

HB 444 clarifies tax issues and provides equity to fishermen marketing their own products. This legislation corrects a large disadvantage that direct marketers were faced with under the current tax structure. These fishermen have paid their fisheries business tax (FBT) after value was added at 5% vs. a shore side processor who paid a 3% tax on the resource on an ex-vessel (grounds price) value. The small catcher/processor or direct marketer paid 5% because they were considered a floating processor. A higher tax rate was devised for floating processors because the large floating processor would anchor off shore, pay no property taxes, or use support services by State businesses. This is not true of the direct marketer. As we are a small boat fleet predominantly Alaskan based, we purchase our fuel, groceries, fishing gear and boat work etc. from the communities that we work out of and live in and should not be considered the same as a large floating processor that is like a small self-contained community.

HB 444 identifies value as the equivalent of grounds price (ex-vessel for your gear type, region and for like product) unless you sell to a licensed fishery business (processor) and then the value is what you received for the product even if value is added such as a frozen product.

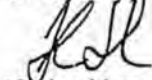
As this legislation was being worked on, industry leaders felt that as we fought for a fair tax basis that we also needed to work on being sure that all taxes are collected from fishermen. Under current tax law, salmon fishermen acting as catcher sellers (fishermen selling unprocessed fish from their vessel) did not pay the harvesters ASMI 1% marketing tax (SMT) and hatchery enhancement tax (SET) in those regions where it is collected because the buyer was responsible for the collection and remittance of these taxes and not the fisherman being ultimately responsible. This legislation will correct this loophole and make the fisherman responsible for the taxes if they are not selling salmon to a licensed fishery business and correct this issue on other possible taxes or assessments that may be implemented in sections 6 – 15 of the bill.

This legislation addressed processors concerns on who would qualify for a direct marketer license by very tightly defining who would qualify for this license. A direct marketer can not buy or purchase fishery resource, can not custom process fishery resources for another fisherman, must own or lease a vessel 65 feet or less. The 65-foot vessel length matches Dept of Environmental Conservation's regulation for a direct marketer. If a commercial fisherman wishes to pursue any of the activities listed above such as buying additional product they can set themselves up by meeting the requirements currently in statute that will continue to be available for someone wishing to become a fish buyer or processor. This legislation was designed to specifically deal with the commercial fisherman and their own catch.

Another aspect of this legislation allows the direct marketer to pay all their taxes (FBT, SET, & SMT) once a year rather than trying to pay the SET & SMT taxes monthly as you are trying to fish.

We understand that this legislation can be very confusing and we would be available to meet with you at anytime to discuss the issues individually or in committee. We hope that you understand that this legislation simply deals with correcting an un-equitable tax situation.

Sincerely,



Kathy Hansen  
Executive Director



# Southeast Conference



P.O. Box 21989 Juneau Alaska 99802-1989 Tel (907) 463-3445 Fax (907) 463-5670

February 16, 2004

Representative Paul Seaton  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

RE: Support HB 444 – Direct Marketers Legislation

Dear Representative Seaton,

Southeast Conference supports HB 444 that corrects the inequities in the current tax structure for the individual fisherman working to market their own catch. Southeast Conference is the State-designated Alaska Regional Development Organization (ARDOR), the federally-designated Economic Development District (EDD), and the federally-designated Resource Conservation and Development Council (RC&D) for Southeast Alaska. The mission of Southeast Conference is to undertake and support activities that promote strong economies, healthy communities, and a quality environment in Southeast Alaska. Our over 130 Southeast Alaska members include nearly every community in the region, every chamber of commerce, every major economic development organization, 20 transportation organizations, 10 Alaska Native organizations, and more than 50 other organizations.

Direct marketing is very important to a segment of the commercial fishing industry in Southeast Alaska. Individual fishermen direct marketing their products are producing high quality products that enhance the value of Alaska's seafood in the market. A lot of the direct market products from Southeast Alaska enter the fresh market or the frozen at sea marketplace.

This legislation will provide a fair tax basis for the direct marketer, which is strictly defined as a fisherman marketing their own catch – they cannot buy, or custom process for another fisherman and must be on a vessel 65 feet or less in length. This legislation does not prevent a fisherman from pursuing these activities under current regulations and statutes they just would not qualify as a direct marketer.

The Southeast Conference recognizes that this legislation is legislation that was worked on by a committee representing various interests and agencies and that they all support HB 444 as a good and fair piece of legislation for all involved. We encourage you to pass this legislation out of committee. Thank you for your interest and support of the commercial fishing industry.

Sincerely,



Meilani Schijvens  
Southeast Conference Executive Director

Cc: Senator Stedman; Representative Wilson

# ALASKA STATE LEGISLATURE



## REPRESENTATIVE PEGGY WILSON

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### SPONSOR STATEMENT

#### HB 444

#### **“An Act relating to direct marketing fisheries businesses”**

House Bill 444, recommended by the Joint Legislative Salmon Industry Task Force, will provide fairness in the taxation of small-business commercial fishermen. HB 444 is a companion to SB 286.

In today's marketplace of lower salmon prices and a demand for high-quality product, many fishermen are choosing to sell their catch directly to restaurants, grocery stores and consumers. In doing so, these entrepreneurial fishermen often freeze or otherwise process their fish, thus adding value to Alaska's fishery resources. Unfortunately, Alaska's current tax structure actually penalizes this market-driven business decision. The Fisheries Business Tax, or FBT (AS 43.75.015), requires small boat fishermen who process only their own catch to pay a 5% tax, the same tax rate as large industrial-scale floating processors that process a much higher volume of fish.

Furthermore, the current structure taxes small boat fishermen at an improperly high point of sale. Shore-based processors pay their FBT at 3% of the "grounds price" which is the price paid to fishermen for raw fish delivered to the processor. However, a small direct marketer must now pay their 5% FBT based on the price at their first point of sale which is usually much higher because it is a wholesale or retail price. In effect, this means that Alaska currently penalizes "value adding" to our fishery resources when done by small catcher/processors and direct marketers.

By creating a "Direct Marketing Fisheries Business License," HB 444 recognizes the important distinction between large and small floating processors and will end the disincentive Alaska currently places on direct marketers. The bill is unanimously supported by the Joint Legislative Salmon Industry Task Force and will provide fair tax relief to these Alaskan small businessmen.

Sec. 38.04.010. Public interest in making land available for private use.

(a) The primary public interest in conveying rights to state land surface to private parties is to make them available to individuals and other persons for direct use in areas classified as suitable for these purposes. In making state land available for private use, the director shall seek to guide year-round settlement to areas where public services already exist, or can be extended with reasonable economy, or where development of a viable economic base is probable.

(b) State land that is located beyond the range of existing schools and other necessary public services, or that is located where development of sources of employment is improbable, may be made available for seasonal recreational purposes or for low density settlement. The seasonal recreation use or low density settlement shall have sufficient separation between residences so that public services will not be necessary or expected. The availability of timber, firewood, and water resources shall be considered in determining separation between residences. By considering the availability of timber, firewood, and water under this subsection or in making any disposal decision, the state does not by virtue of that consideration imply any right of the person receiving the disposal to an exclusive or other right to the timber, firewood, or water, that the state will not make any other disposals in the area, or that any disposals made will be limited in type or any other manner.

## **Southeast Alaska Fishermen's Alliance**

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Juneau, AK 99801



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March 8, 2004

Honorable Nancy Dahlstrom, Co-Chair  
Honorable Beverly Masek, Co-Chair  
House Resources Committee  
Alaska State Legislature  
State Capitol, Mail Stop 3100  
Juneau, AK 99801

RE: HB 444-- Direct Marketing Fisheries Businesses

Dear Representatives,

The Southeast Alaska Fishermen's (SEAFA) Alliance fully supports HB 444. The Southeast Alaska Fishermen's Alliance (SEAFA) is a non-profit fishing organization formed in 2000 to represent our members involved in the salmon, crab, shrimp and longline fisheries of Southeast Alaska. We have been actively working on direct marketing issues since SEAFA was formed and our Executive Director and many members have been working on direct marketing issues for 8+ years. We believe that this legislation will have the most direct economic benefit to fishermen that comes out of the salmon industry task force.

This legislation was worked on two years in a sub-committee of the salmon task force marketing committee with industry, agencies and any public who wished to be involved. To get legislation that was workable and made sense, compromises were made on all sides of the issues and we came out with legislation that the majority approves of. Dept of Revenue especially worked hard on this legislation to come up with a workable solution and deserves recognition for their work on this and the other administrative changes they have made that improves the business climate for direct marketers.

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Sincerely,



Kathy Hansen  
Executive Director

# Southeast Conference

P.O. Box 21989 Juneau Alaska 99802-1989 Tel. (907) 463-3445 Fax (907) 463-5670

March 8, 2004

House Resources Committee  
Representatives Dahlstrom and Masek, Co- Chairs  
Alaska State Legislature  
State Capitol, Mail Stop 3100  
Juneau, AK 99801

RE: Support HB 444- Direct Marketers Legislation

Dear Representatives,

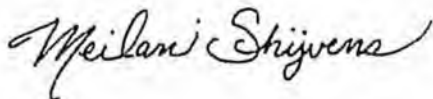
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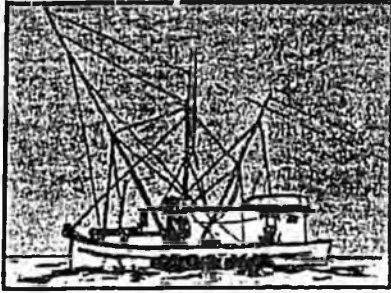
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Sincerely,



Meilani Schijvens  
Southeast Conference Executive Director



# Alaska Trollers Association

130 Seward St., No. 211  
Juneau, Alaska 99801  
(907) 586-9400  
(907) 586-4473 Fax

March 8, 2004

The Honorable Beverly Masek, Co-Chair  
The Honorable Nancy Dahlstrom, Co-Chair  
House Resources Committee  
Alaska State Legislature  
Juneau, AK 99801

Dear Representatives:

The Alaska Trollers Association supports HB 444, which seeks to provide tax equity and clarity for commercial fishermen who direct market seafood products.

In these challenging price times, more commercial fishermen are choosing to market all or part of their catch directly to the consumer, as a means to add value to their businesses. Direct marketing is an increasingly important option for small boat fishermen. However, the current tax structure discourages efforts to add value to products. Furthermore, the regulatory and administrative processes for direct marketing is cumbersome and does not quite fit the nature of these small operations.

By supporting cooperative efforts to correct problem areas, and adopting some relatively simple changes, the state of Alaska could take positive action to support small business; reduce agency staff time and state spending; promote market diversification of Alaskan seafood; and, bolster Alaska's economy, particularly in rural communities.

As you know, the Salmon Legislative Task Force has been working to encourage small business development and create new marketing opportunities. To that end, the Task Force Marketing Committee appointed a subcommittee to develop ideas and legislation to better accommodate the specific needs and circumstances of individual permit holders who direct market seafood.

The subcommittee met via statewide teleconference and in working groups for nearly two years. Advice was sought from direct marketers, DOR, ADFG, and DEC. Many administrative and legislative tasks have been identified. SB 286 is a direct result of this work. If passed, it will go a long way towards resolving imbalances that exist in our tax program. For instance, a small operator who freezes salmon at sea pays 5% fisheries business tax, just like the big, offshore fish processors. The product is not only taxed at a rate 2% higher than what shorebased processors pay, but the tax is calculated on the processed value of the product. In contrast, a shorebased processor pays 3% fisheries business tax based on the ex-vessel (raw fish) value of the product they purchased. ATA believes this tax inequity must be resolved.

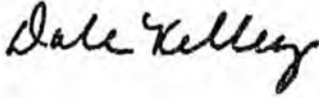
In addition to the rate of tax paid, the bill also clarifies who pays taxes and under what circumstances. This has been a confusing matter for all involved.

The bill establishes an annual timeframe for taxation, which will be extremely convenient for both fishermen and DOR. A primary goal of the Marketing Subcommittee is to streamline process for everyone involved, which should mean reduced cost and workload for fishermen and agency staff. Committee members have expressed an interest in continuing the project until all legislative and administrative tasks are complete.

There are many tasks ahead to develop a well-articulated direct marketing program and passage of SB286 will be a critical component. Hopefully you agree with us and will lend your support to this bill, as well as future actions to improve the direct marketing program and the relationship between industry and the state.

If I can provide information or perspective on this and other matters of importance to the seafood industry, please don't hesitate to call.

Best regards,

A handwritten signature in cursive script that reads "Dale Kelley". The signature is written in dark ink and is positioned above the typed name.

Dale Kelley  
Executive Director

Senator Bert Stedman  
State Capital Building  
Juneau, AK 99801

February 3, 2004

Dear Senator Stedman,

In reference to HB 444, I'm very much in support.

I'm a life long fisherman in Alaska and now the program director for our regional marketing group here in Wrangell. I support efforts like this to encourage direct marketing. I also strongly support efforts for the Alaskan processing industry and envision a day when we work together in a close and symbiotic fashion.

Fair and equitable circumstances lead to a healthy environment for all of us in the industry. I believe direct marketers will contribute a great deal in the near future.

Thank you for supporting our efforts.

Gig Decker  
Stikine River Salmon branding project  
P.O. Box 2138  
Wrangell, Alaska 99929

**HB**

**458**

Adjust financial  
Addendums to  
vendors.

Paul Shadura  
Pres. Kensi Pen. Fishing

262-2492

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Anchorage Daily News

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## 'Dude fishing' bill aims toward extreme tourists

**PAY TO WORK: Visitors would be able to play commercial fishermen.**

By CATHY BROWN  
The Associated Press

(Published: April 6, 2004)

JUNEAU -- Tourists will pay to ride on a dog sled or hike on a glacier. But will they put up cash for the experience of pulling sockeye salmon out of a commercial fishing net?

A bill passed Monday by the House Special Committee on Fisheries assumes they will.

Currently, tourists cannot do any work on a commercial fishing operation without a crew member fishing license.

For nonresidents, those cost \$180 a year. House Bill 458 would create one-day licenses costing \$30 and three-day licenses costing \$50.

Adam Berg, an aide to Rep. Carl Moses, D-Unalaska, said the change could make it affordable for fishermen to offer tours on Alaska commercial fishing trips.

"There's all sorts of extreme tourism options for them when they come up right now, and this is just another one," Berg said.

Moses is pitching the bill as a way to help commercial fishermen who have been hit hard by low salmon prices and, in some parts of the state, smaller catches.

"The whole idea of the bill is to give permit holders the option of another possible avenue to raise money," Berg said.

"In essence, it seems like we're setting up dude fishing," said Rep. Dan Ogg, R-Kodiak. "Is that like dude ranching -- dude fishing?"

The bill seems to have generated the most interest so far from the Kenai Peninsula, where representatives of two Cook Inlet fishing groups testified in favor of it.

Paul Shadura, president of the setnet group Kenai Peninsula Fishermen's Association, said it could help fishermen diversify their income and provide a service to tourists.

"There's those thrill seekers out there who just basically want to touch a fish," Shadura said.

Roland Maw, executive director of the United Cook Inlet Drift Association, said he believes there will be a demand for the trips.

Two years ago, he said, his son advertised a commercial fishing trip on the online auction site eBay and had 1,200 hits within 12 hours.

The change could also help out a fisherman who needs to hire a temporary crew to fill in for an injured worker, Maw said.

Rep. Peggy Wilson, R-Wrangell, questioned whether the change could hurt the Fishermen's Fund, a fund that provides for medical care when fishermen are hurt on the job. Wilson said inexperienced crew members probably will be more prone to injury than seasoned workers.

Guy Bell of the state Department of Labor and Workforce Development said 39 percent of commercial fishing license fees go to the fund, so it would be unfair to deny coverage to some of those paying the fees.

The fund is in good shape financially, Bell said.

Fisheries Committee members generally were enthusiastic about the bill.

They voted to move up the effective date to this July 1 instead of Jan. 1, 2005.

They also added the three-day license option for fishermen wanting to offer trips longer than a day.

But the bill's chances for passage are uncertain because it is sponsored by a Democrat in the Republican-dominated Legislature.

It next goes to the House Resources Committee.

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HB 458 The Governor - Fishing Vessel Safety Coordinator Coast Guard

Circle fishing

Fisherman bringing tourist on board, change from commercial to passenger

- random drug testing
- motor licensed to passenger
- coast guard passenger license

for 6 or less passengers  
 over the 6 then next has to be  
 inspected by the coast guard before  
 permit

R.I.  
 Detail Security Numbers  
 6-13-17  
 New law states that unless



23-LS1591U  
Utermohle  
3/31/04

CS FOR HOUSE BILL NO. 458( )  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES MOSES BY REQUEST, Wolf

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to a one-day commercial fishing crewmember license; and providing  
2 for an effective date."

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

4 \* Section 1. AS 16.05.480(g) is amended to read:

5 (g) A [FOR A CREWMEMBER FISHING LICENSE ISSUED FOR  
6 CALENDAR YEAR 2002 AND FOLLOWING YEARS, A] resident engaged in  
7 commercial fishing who is 11 years of age or older and who does not hold an entry  
8 permit or an interim-use permit shall pay a [AN ANNUAL] fee of \$60 for an annual  
9 crewmember fishing license. A [. FOR A CREWMEMBER FISHING LICENSE  
10 ISSUED FOR CALENDAR YEAR 2002 AND FOLLOWING YEARS, A] resident  
11 engaged in commercial fishing who is less than 11 years of age and who does not hold  
12 an entry permit or an interim-use permit shall pay an annual fee of \$5.

13 \* Sec. 2. AS 16.05.480(h) is amended to read:

14 (h) A [FOR A CREWMEMBER FISHING LICENSE ISSUED FOR

1 CALENDAR YEAR 2002 AND FOLLOWING YEARS, A] nonresident engaged in  
2 commercial fishing who is 11 years of age or older and who does not hold an entry  
3 permit or an interim-use permit shall pay a [AN ANNUAL] base fee of \$60 for an  
4 annual crewmember fishing license, plus an amount, established by the department  
5 by regulation, that is as close as is practicable to the maximum allowed by law. A  
6 [FOR A CREWMEMBER FISHING LICENSE ISSUED FOR CALENDAR YEAR  
7 2002 AND FOLLOWING YEARS, A] nonresident engaged in commercial fishing  
8 who is less than 11 years of age and who does not hold an entry permit or an interim-  
9 use permit shall pay an annual base fee of \$5 plus an amount, established by the  
10 department by regulation, that is as close as is practicable to the maximum allowed by  
11 law.

12 \* Sec. 3. AS 16.05.480 is amended by adding a new subsection to read:

13 (j) Notwithstanding (g) and (h) of this section, a resident or nonresident  
14 engaged in commercial fishing who does not hold an entry permit or an interim-use  
15 permit may obtain a one-day crewmember fishing license for a fee of \$30.

16 \* Sec. 4. AS 16.10.310(a) is amended to read:

17 (a) The department may

18 (1) make loans

19 (A) to individual commercial fishermen who have been state  
20 residents for a continuous period of two years immediately preceding the date  
21 of application for a loan under AS 16.10.300 - 16.10.370, who have had an  
22 annual [A] crewmember or commercial fishing license under AS 16.05.480 or  
23 a permit under AS 16.43 for the year immediately preceding the date of  
24 application and any other two of the past five years, and who actively  
25 participated in the fishery during those periods

26 (i) for the purchase of entry permits; or

27 (ii) to upgrade existing vessels and gear for the purpose  
28 of improving the quality of Alaska seafood products;

29 (B) to an individual for the repair, restoration, or upgrading of  
30 existing vessels and gear, for the purchase of entry permits and gear, and for  
31 the construction and purchase of vessels, if the individual has been a state

1 resident for a continuous period of two years immediately preceding the date  
2 of application for a loan under AS 16.10.300 - 16.10.370, and either

3 (i) because of lack of training or lack of employment  
4 opportunities in the area of residence, does not have occupational  
5 opportunities available other than commercial fishing; or

6 (ii) is economically dependent on commercial fishing  
7 for a livelihood and for whom commercial fishing has been a traditional  
8 way of life in Alaska;

9 (C) for the purchase of quota shares for fisheries in or off the  
10 state by individual commercial fishermen who

11 (i) have been state residents for a continuous period of  
12 two years immediately preceding the date of application for a loan  
13 under AS 16.10.300 - 16.10.370;

14 (ii) for any two of the past five years, possessed an  
15 annual [A] crewmember or commercial fishing license under  
16 AS 16.05.480 or a permit under AS 16.43 and actively participated in a  
17 fishery for which the license or permit was issued;

18 (iii) qualify as transferees for quota shares under  
19 applicable law; and

20 (iv) are not eligible for financing from other recognized  
21 commercial lending institutions to purchase quota shares;

22 (D) to an individual commercial fisherman to satisfy past due  
23 federal tax obligations, if the fisherman has been a state resident for a  
24 continuous period of two years immediately preceding the date of application  
25 for the loan, has filed past and current federal tax returns with the federal  
26 government, has executed an agreement with the federal government for  
27 repayment of past due federal tax obligations, and either

28 (i) has had an annual [A] crewmember or commercial  
29 fishing license under AS 16.05.480 or a permit under AS 16.43 for the  
30 year immediately preceding the date of application and any other two  
31 of the past five years, and has actively participated in the fishery during

1 those periods;

2 (ii) because of lack of training or lack of employment  
3 opportunities in the area of residence, does not have occupational  
4 opportunities available other than commercial fishing; or

5 (iii) is economically dependent on commercial fishing  
6 for a livelihood and for whom commercial fishing has been a traditional  
7 way of life in Alaska;

8 (2) designate agents and delegate its powers to them as necessary;

9 (3) adopt regulations necessary to carry out the provisions of  
10 AS 16.10.300 - 16.10.370, including regulations to establish reasonable fees for  
11 services provided;

12 (4) establish amortization plans for repayment of loans, which may  
13 include extensions for poor fishing seasons or for adverse market conditions for  
14 Alaska products;

15 (5) enter into agreements with private lending institutions, other state  
16 agencies, or agencies of the federal government to carry out the purposes of  
17 AS 16.10.300 - 16.10.370;

18 (6) enter into agreements with other agencies or organizations to create  
19 an outreach program to make loans under AS 16.10.300 - 16.10.370 in rural areas of  
20 the state;

21 (7) allow an assumption of a loan if

22 (A) the applicant has been a state resident for a continuous  
23 period of two years immediately preceding the date of the request for an  
24 assumption; and

25 (B) approval of the assumption would be consistent with the  
26 purposes of AS 16.10.300; an applicant for a loan assumption may not be  
27 disqualified because the applicant does not meet the loan eligibility  
28 requirements of (1) of this subsection;

29 (8) prequalify loan applicants for a limited entry permit loan or a quota  
30 shares loan and charge a fee not to exceed \$200 for prequalification;

31 (9) charge and collect the fees established under this subsection;

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(10) refinance a debt obligation incurred by a borrower or borrowers under this section if the borrower or borrowers otherwise qualify for a loan under AS 16.10.300 - 16.10.370;

(11) refinance debt obligations, not to exceed \$300,000, incurred by a borrower or borrowers for the purchase of a commercial fishing vessel or gear if the borrower or borrowers otherwise qualify for a loan under AS 16.10.300 - 16.10.370; the department may collect a refinancing loan origination charge as provided by regulation.

\* Sec. 5. This Act takes effect January 1, 2005.

**Representative Carl E. Moses, House District 37  
(907) 465-4451 – Adam Berg, Staff**

**SPONSOR STATEMENT / SECTIONAL ANALYSIS**

**HB458 – One-Day Commercial Fishing Crewmember License**

The economic health of certain communities and regions of Western Alaska have been jeopardized by unprecedented low salmon returns and prices. These low returns have particularly impacted commercial salmon fishermen in those regions. It is in the best interest of the State of Alaska and these communities to maximize options available to those fishermen to earn a living. One option available is to allow the purchase of one-day commercial fishing crewmember licenses. This would allow visitors an affordable way to engage in a sort of extreme tourism adventure by actually participating in the fishery as a crewmember.

Tourists can currently go out with a commercial boat but cannot have any form of active participation without buying a full year crewmember license.

**BILL SECTIONS 1-2:** Changes the term from a “crewmember fishing license” to an “annual crewmember fishing license”. (Note: The reason for the term change applies to Bill Section 4.)

**BILL SECTION 3:** Allows residents and non-residents to purchase a one-day commercial fishing crewmember license for \$30.

**BILL SECTION 4:** Assures that a one-day license holder is not considered a fisherman eligible for the Commercial Fishing Revolving Loan Fund.

**BILL SECTION 5:** Changes the definition of “fisherman” to assure one-day license holders do not qualify for the Fisherman’s Fund

SPONSOR STATEMENT / SECTIONAL



# UNITED FISHERMEN OF ALASKA

211 Fourth Street, Suite 110  
Juneau, Alaska 99801-1172  
(907) 586-2820  
(907) 463-2545 Fax  
E-Mail: ufa@ufa-fish.org  
www.ufa-fish.org

March 11, 2004

Representative Tom Anderson, Chair  
House Committee on Labor and Commerce  
Alaska State Legislature  
State Capitol (Mail Stop 3100)  
Juneau, AK 99801-1182

Dear Chairman Anderson,

United Fishermen of Alaska supports HB 458 relating to a one-day commercial fishing crewmember license. This bill would provide the flexibility for commercial fishermen to take out a guest or client for a single day without requiring the full year crew license. Many tourists and visiting family members of fishermen are interested in seeing for themselves and taking part in the rich tradition of commercial fishing in Alaska. Allowing the option of a one day crew license would provide this excellent opportunity for them to gain an appreciation for Alaska's well-managed fisheries, while bringing an additional possible source of income for fishermen. This would be an excellent new and innovative way to market Alaska's fish.

We also believe that the revenue from the one day crew license would likely offset the costs incurred in establishing the program. We do not expect that professional crew members would consider this as an alternative to their normal full year crew license.

United Fishermen of Alaska represents 32 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support HB 458 and thank you for your consideration on this matter.

Sincerely,

Mark Vinsel  
Executive Director

CC: Representative Carl Moses

#### MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Druggers Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Armstrong Keta • At-sea Processors Association  
Bristol Bay Reserve • Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cordova District Fishermen United  
Crab Rationalization and Buyback Group • Douglas Island Pink and Chum • Groundfish Forum • Kenai Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association  
Kodiak Seiners Association • North Pacific Fisheries Association • Northern Pacific Scallop Cooperative • Northern Southeast Regional Aquaculture Association  
Old Harbor Fishermen's Association • Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Purse Seine Vessel Owners Association  
Seafood Producers Cooperative • Southeast Alaska Regional Dive Fisheries Association • Southeast Alaska Seiners Association • Sitka Regional Aquaculture Association  
United Catcher Boats • United Salmon Association • United Southeast Alaska Gillnetters • Valdez Fisheries Development Association • Western Gull of Alaska Fishermen

HB

478



# UNITED FISHERMEN OF ALASKA

March 8, 2004

211 Fourth Street, Suite 110  
Juneau, Alaska 99801-1172  
(907) 586-2820  
(907) 463-2545 Fax  
E-Mail: [ufa@ufa-fish.org](mailto:ufa@ufa-fish.org)  
[www.ufa-fish.org](http://www.ufa-fish.org)

Representative Nancy Dahlstrom, Co-Chair  
Representative Beverly Masek, Co-Chair  
House Resource Committee  
Alaska State Legislature  
State Capitol (Mail Stop 3100)  
Juneau, AK 99801-1182

Dear Madam Chair,

United Fishermen of Alaska supports HB 478. This bill is a housekeeping measure that will clarify the legislature's intent of allowing the Commercial Fisheries Entry Commission to be able to issue interim-use permits for any fishery, even in fisheries where entry is not limited.

United Fishermen of Alaska represents 33 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support HB 478 and thank you for your consideration on this matter.

Sincerely,

Mark Vinsel  
Executive Director

CC: Representative Peggy Wilson

#### MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Druggers Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Armstrong Kota • At-sea Processors Association  
Bristol Bay Reserve • Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cordova District Fishermen United  
Crab Rationalization and Buyback Group • Douglas Island Pink and Chum • Groundfish Forum • Kenai Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association  
Kodiak Seiners Association • North Pacific Fisheries Association • Northern Pacific Scallop Cooperative • Northern Southeast Regional Aquaculture Association  
Old Harbor Fishermen's Association • Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Purse Seine Vessel Owners Association  
Seafood Producers Cooperative • Southeast Alaska Regional Dive Fisheries Association • Southeast Alaska Seiners Association • Southern Southeast Regional Aquaculture Association  
Uni-her Boats • United Salmon Association • United Southeast Alaska Gillnetters • Valdez Fisheries Development Association • Western Gulf of Alaska Fishermen

# Alaska State Legislature

Representative Peggy Wilson

House District 2

Putting Alaska's Families First

## SPONSOR STATEMENT FOR CSHB 478-FSH

**An Act relating to the issuance of commercial fishing interim-use permits.**

CSHB 478-FSH is a housekeeping measure designed to affirm, and clarify, that the Commercial Fisheries Entry Commission (CFEC) has the authority to issue interim-use permits in each fishery that is not subject to a maximum number (limited entry). This clarification is consistent with the intent of the original statute. The clarification is necessary, however, because the Court of Appeals recently held that the CFEC does not have the authority to issue interim-use permits to fishermen who catch halibut or sablefish beyond the three-mile limit of state waters, and then bring those halibut or sablefish into state waters for delivery and sale.

Current statutes require that fishermen in those circumstances have a state permit, AS 16.05.675. The permit requirement promotes enforcement, promotes resource data collection, and facilitates revenue collection. However, three fishermen who lacked a permit recently prevailed in the Court of Appeals by arguing that the only permit available to them was an interim-use permit, and that the Commercial Fisheries Entry Commission lacks the authority to issue interim-use permits in fisheries that it cannot limit to a maximum number of participants. *State v. Dupier*, 74 P.2d 933 (Alaska App. 2003). The Court of Appeals decision is currently under review by the Alaska Supreme Court. Regardless of the outcome in this case, clarification of the statute is desirable.

CSHB 478-FSH amends the statute, so that it clearly authorizes the CFEC to issue interim-use permits in fisheries that have not been the subject of a maximum number (limited entry). This clarification is consistent with the original intent and purpose of the current statute, and it will more clearly authorize the issuance of permits in all Alaska fisheries despite the recent Court of Appeals decision.

The inclusion of a retroactive clause demonstrates the agreement of the Legislature that the changes put forward in this bill are consistent with the initial intent, and purpose, of the original statute. The changes contained within this bill are not intended to alter the purpose, or effect, of the statute. These changes are intended to clarify the statute, and affirm the practices of the CFEC relating to interim-use permit issuance, which have been on-going in good faith for 30 years.

CSHB 478 3/1/2004

Jan-May, Juneau: State Capitol • Juneau, AK 99801-1121 • ph: (907) 465-3824 • fax: (907) 465-3175  
June-Dec, Wrangell: PO Box 109 • Wrangell, AK 99929 • ph: (907) 874-3088 • fax: (907) 874-3055  
Rep.Peggy.Wilson@legis.state.ak.us • <http://www.akrepublicans.org/wilson/> • 1-800-686-3824

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 478(FSH)  
 (H) Publish Date: 3/3/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Fish and Game  
 Title An Act relating to the issuance of commercial fishing interim-use permits RDU Comm. Fish Entry Commission  
 Component Commercial Fisheries Entry Commission  
 Sponsor Rep. Wilson  
 Requester Rep. Wilson Component No. 471

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type--Do not abbreviate)	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

**ANALYSIS:** (Attach a separate page if necessary)

Prepared by: Shirley Penrose, Administrative Officer Phone 907-790-6960  
 Division Commercial Fisheries Entry Commission Date/Time 2/19/04 9:43 AM  
 Approved by: Mary McDowell, Commissioner Date 2/19/2004  
 Agency Commercial Fisheries Entry Commission

**Subject: Re: HB 478**

**Date:** Fri, 27 Feb 2004 17:24:44 -0900

**From:** "Jon Goltz" <Jon\_Goltz@law.state.ak.us>

**To:** <Eric\_Knudson@legis.state.ak.us>

**CC:** <bruce\_twomley@cfec.state.ak.us>, <Cameron\_Yourkowski@legis.state.ak.us>, <Frank\_homan@po.cfec.state.ak.us>

Eric:

I have not yet completed my analysis due to other issues that required my attention today, but my research thus far appears to point to the following conclusions.

On the retroactivity issue:

(1) Applying the bill retroactively in the criminal case that is currently in the Supreme Court would raise an issue about the "ex post facto" prohibitions of the Alaska and the U.S. constitutions. Since this bill only clarifies when the CFEC shall issue a permit - not when a permit is required - it is not clear whether retroactive application would be an ex post facto law.

(2) The bill possibly could be applied retroactively in the civil cases that seek reimbursement for past fees paid, but there are some complications. AS 01.10.100 provides that the amendment of a law does not extinguish any liability accrued under that law, "unless the . . . amending act so provides expressly." Even then, there could be a potential due process issue, although in my initial judgment no due process violation would occur.

(3) Even if the law could not be applied retroactively in any of the current court cases, a retroactive date for the bill could express the legislature's view that the Court of Appeals misinterpreted the scope of the current statute. That might have some persuasive value for the Supreme Court.

I don't see a significant down side to making the bill retroactive, as long as the legislature understands that the courts might not allow it to be applied retroactively in all circumstances.

On the issue of landing fish from international waters, I don't see any changes to this bill that could help clarify that issue. That issue mainly pertains to other statutes that require a permit. The statute that is the subject of this bill does not require a permit, it just express when the CFEC shall issue a permit.

I'll work on these issues over the weekend and be prepared to provide further testimony on Monday.

>>> Eric Knudson <Eric\_Knudson@Legis.state.ak.us> 2/27/2004 4:23:46 PM

>>>

Assistant Attorney General Goltz,

If you could also send a copy of your assessment and opinion, which were

requested of you by the Fisheries committee today to Cameron Yourkowski

I would appreciate it. Cameron Yourkowski's email is included in this email.

Thank you for you work on this issue,

Eric



# UNITED FISHERMEN OF ALASKA

March 8, 2004

211 Fourth Street, Suite 110  
Juneau, Alaska 99801-1172  
(907) 586-2820  
(907) 463-2545 Fax  
E-Mail: [ufa@ufa-fish.org](mailto:ufa@ufa-fish.org)  
[www.ufa-fish.org](http://www.ufa-fish.org)

Representative Nancy Dahlstrom, Co-Chair  
Representative Beverly Masek, Co-Chair  
House Resource Committee  
Alaska State Legislature  
State Capitol (Mail Stop 3100)  
Juneau, AK 99801-1182

Dear Madam Chair,

United Fishermen of Alaska supports HB 478. This bill is a housekeeping measure that will clarify the legislature's intent of allowing the Commercial Fisheries Entry Commission to be able to issue interim-use permits for any fishery, even in fisheries where entry is not limited.

United Fishermen of Alaska represents 33 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support HB 478 and thank you for your consideration on this matter.

Sincerely,

Mark Vinsel  
Executive Director

CC: Representative Peggy Wilson

#### MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Dragger's Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Armstrong Keta • At-sea Processors Association  
Bristol Bay Reserve • Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cordova District Fishermen United  
Crab Rationalization and Buyback Group • Douglas Island Pink and Chum • Groundfish Forum • Kenai Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association  
Kodiak Sainers Association • North Pacific Fisheries Association • Northern Pacific Scallop Cooperative • Northern Southeast Regional Aquaculture Association  
Old Harbor Fishermen's Association • Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Purse Seine Vessel Owners Association  
Seafood Producers Cooperative • Southeast Alaska Regional Dive Fisheries Association • Southeast Alaska Sainers Association • Southern Southeast Regional Aquaculture Association  
United Catcher Boats • United Salmon Association • United Southeast Alaska Gillnetters • Valdez Fisheries Development Association • Western Gull of Alaska Fishermen

**HB**

**486**

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 486  
 (H) Publish Date: 2/16/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Natural Resources  
 Title: Mining Reclamation Bonding RDU: Resource Development  
 Component: Claims, Permits and Leases  
 Sponsor: Rules  
 Requester: Governor Component No.: 2460

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time	0	0	0	0	0	0
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill makes various changes to AS 27.19, and establishes a Mining Reclamation Trust Fund under AS 37.14.

The bill would require no additional staff at the Department of Natural Resources. The Mining Reclamation Trust Fund would allow the state to take in funds from a particular mine for use for reclamation at that mine. There would be no net change to funds available to the state for general government purposes.

The last financial change established by the bill is that income and other earnings on the reclamation bond pool, used for placer mines, would be returned to the pool (AS 27.19.040(b)). This amount is expected to be approximately \$50,000 in FY 04. The new language changes the location for holding for the funds but does not change the amount available to the state.

Prepared by: Bob Loeffler, Director Phone 269-8600  
 Division: Mining, Land & Water Date/Time 1/21/04  
 Approved by: Thomas Irwin, Commissioner Date 1/21/04  
 Agency: Natural Resources

# FISCAL NOTE

**STATE OF ALASKA**  
**2004 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: HB 486  
 (H) Publish Date: 2/16/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title Reclamation bonding for certain mines RDU Revenue Programs & Services  
 Component Treasury Division  
 Sponsor Rules Committee  
 Requester Request of the Governor Component No. 121

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	6.0	12.0	18.0	24.0	30.0	36.0
Travel						
Contractual	15.0					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>21.0</b>	<b>12.0</b>	<b>18.0</b>	<b>24.0</b>	<b>30.0</b>	<b>36.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	21.0	12.0	18.0	24.0	30.0	36.0
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
<b>TOTAL</b>	<b>21.0</b>	<b>12.0</b>	<b>18.0</b>	<b>24.0</b>	<b>30.0</b>	<b>36.0</b>

Estimate of any current year (FY2004) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This fiscal note is predicated upon a trust fund build-up of \$10 million per year plus fund earnings. The cost of managing a fixed income trust fund internally is about 6 basis points. Additionally, this fund would require individual project fund tracking, something that is slightly different from anything now done at Treasury. A contractual cost of \$15.0 is included to originate that tracking with GeFONSI.

Prepared by: Tomas Boutin, Deputy Commissioner  
 Division: Treasury  
 Approved by: Bill Corbus, Commissioner  
 Agency: Revenue

Phone 465-3669  
 Date/Time 1/20/04 1:41 PM  
 Date 1/20/2004

HB486



FRANK H. MURKOWSKI  
GOVERNOR  
GOVERNOR@GOV.STATE.AK.US

P.O. Box 110001  
JUNEAU, ALASKA 99811-0001  
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STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

February 13, 2004

The Honorable Pete Kott  
Speaker of the House  
Alaska State Legislature  
State Capitol, Room 208  
Juneau, AK 99801-1182

Dear Speaker Kott:

Under the authority of article III, section 18, of the Alaska Constitution, I am transmitting a bill relating to mine reclamation bonding and financial assurance.

This bill would make three changes to existing law. First, it would remove "lode mines," sometimes referred to as "hard-rock mines," from the current bonding "cap" of \$750 per acre for mine reclamation responsibilities; the cap would remain in effect for placer mines. Second, it would replace the term "performance bond" with the term "financial assurance," and would list various ways to provide that assurance, in order to give mining companies and the state the flexibility to employ a variety of financial assurance vehicles. Third, it would create a mine reclamation trust fund, which would allow the build-up of an adequate reclamation fund through payments made over time and through the earnings on that fund.

These three changes all reflect the fact that satisfactory reclamation of a hard-rock mine is a site-specific issue. A generic dollar-per-acre bond "cap" simply does not work for reclamation responsibilities for hard-rock mines. Each mine is unique, and the optimal vehicle to use to ensure final reclamation depends on many factors including, by way of example: the projected mine life; the need for long-term site management measures (such as to address potential acid mine drainage); and the availability and cost of different bonding tools in the current financial market. Given these and other factors, the state and the mining industry need flexibility in selecting and constructing financial assurances for mine reclamation.

The third element of the bill, the mine reclamation trust fund, is an attempt to accommodate some fiscal realities faced by the industry. It provides the opportunity for the state to set up site-specific funding agreements to accommodate long-term or in-perpetuity reclamation tasks. Examples include the possible need for in-perpetuity water treatment at the Red Dog

The Honorable Pete Kott  
February 13, 2004  
Page 2

Mine, long-term monitoring at the Illinois Creek Mine, and in-perpetuity maintenance of the dam for the freshwater recreation lake that Fort Knox Mine is leaving to Alaskans at the request of the Department of Natural Resources. The trust fund concept provides for a method of accommodating long-term or in-perpetuity reclamation needs of this type.

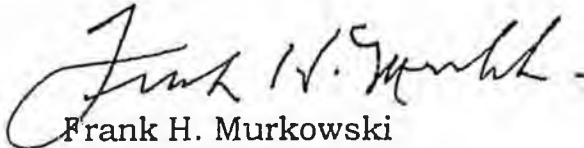
Making deposits into a state-controlled trust fund will have significant benefits for industry and the state. In addition to providing potential benefits under the federal tax code for companies, the state would have access to a fund for mine reclamation work that will retain earnings and increase over time.

The bill would provide that the Department of Revenue would manage investment of the fund, as it does already for a number of other similar state funds. But the Department of Natural Resources would be the agency authorized to make expenditures from the fund for mine reclamation and post-closure site management.

The state's resource agencies, under the leadership of the Department of Natural Resources, have crafted this bill with an understanding of the needs of the industry and the needs of Alaskans who rely on reclamation of the land. This bill is broadly supported by the mining industry.

I urge your prompt and favorable action on this measure

Sincerely yours,



Frank H. Murkowski  
Governor

Enclosure

# Alaskans for Responsible Mining

P.O. Box 100660, Anchorage, AK 99501 ♦ (907) 258-6148 (907) 258-6177, fax ♦ [www.reformakmines.org](http://www.reformakmines.org)

## 5 Reasons to Oppose Corporate Guarantees

### 1. Corporate guarantees provide no financial protection to the State of Alaska in the event of a bankruptcy.

The purpose of a reclamation bond is to protect the State against the cost of mine clean up should a company declare bankruptcy or refuse to complete reclamation according to its operating permit. As a form of financial assurance, corporate guarantees provide no guarantee at all. A corporate guarantee is simply a written promise, or "IOU," by the corporation that it will fulfil its reclamation obligation. There are no hard assets, cash, or cash-equivalents, behind it. Should bankruptcy occur, corporate guarantees leave the regulatory agency with no recourse but to pursue the corporation in bankruptcy court.

### 2. Corporate guarantees are prohibited by most other western states and by federal land management agencies.

The U.S. Bureau of Land Management and the U.S. Forest Service prohibit corporate guarantees for mine clean up. Many western states (Idaho, Montana, California, Oregon, South Dakota, and Washington) also prohibit the use of corporate guarantees for mine reclamation.

### 3. The number of bankrupt mines in western states has increased significantly in recent years, putting many state and/or federal agencies in a position of significant liability.

State and/or federal agencies are presently potentially responsible for at least some portion of the cleanup costs of 13 mines in Nevada, five in Montana, and additional mines in South Dakota, Idaho, Colorado and New Mexico. For example:

- Pegasus Gold filed for bankruptcy in 1998, leaving the State of Montana with combined cleanup costs of over \$40 million at the Zortman/Landusky and Beal Mountain mines. "If DEQ had accepted corporate guarantees at the seven sites now being reclaimed, and had to stand in line with other creditors in bankruptcy court, or chase vanished companies, we would most likely now be dealing with an additional \$60 million shortfall, with the sites lying unreclaimed." Comments from Warren McCullough, Chief of the Environmental Management Bureau at the Montana Department of Environmental Quality.
- At the Summitville Mine, located on state lands in Colorado, the mining company walked away, leaving taxpayers with over \$120-150 million in reclamation costs.
- Similarly, South Dakota was forced to take the extraordinary step of requesting court intervention to keep the operator of the Gilt Edge Gold Mine from abandoning its water quality treatment plant. In 2000, the State of South Dakota was spending roughly \$100,000 each month on water treatment at the site. The state and EPA estimate the total reclamation costs to be between \$22 and \$27 million.

In Alaska, one major mine is currently in bankruptcy (Illinois Creek). Another mine that was part of the Alaska Bond Pool Program is also bankrupt, with clean-up costs likely to exceed \$250,000 (Nixon Fork).

**4. Corporate guarantees are an unnecessary risk to the State because there are many other forms of financial assurance available.**

There are many types of financial assurance available to the mining industry. Reclamation bonds in the form of cash or cash-equivalent are the preferred form of financial assurance since they are the most secure and are readily available to the State in the event they are necessary. These include irrevocable letters of credit (bank guarantees), surety bonds, certificates of deposit, and trust funds.

**5. The State of Alaska needs the protection provided by adequate reclamation bonds because mining is an inherently volatile industry.**

Circumstances such as mergers, hostile takeovers or dramatic fluctuations in metal prices often occur very rapidly, leaving what might appear to be a healthy corporation in difficult financial circumstances. In some cases, states have been left in an unexpected position of liability when subsidiaries have filed for bankruptcy after shifting assets to other subsidiaries within the parent corporation. For example:

- W.R. Grace filed for bankruptcy in April 2001 to protect its parent company from the liability of asbestos-related tort claims associated with the W.R. Grace Mine and processing facilities. According to Montana's Attorney General, Mike McGrath, W.R. Grace employed a "dizzying array of complex maneuvers" that moved a bulk of Grace's holdings and finances into subsidiaries and other companies. Because the reclamation bond was inadequate for mine cleanup, the W.R. Grace Mine was designated a Superfund site in 2001. The State will be responsible for 10% of Superfund costs, which have already topped \$60 million.
- In August 2002, the U.S. Department of Justice filed suit against ASARCO to prevent the company from selling its two remaining revenue-generating assets to another subsidiary within its parent company, Grupo Mexico. According to the U.S. Department of Justice, "If allowed to proceed, this transfer will strip Asarco of its most significant asset and will create a situation wherein the company will not only be unable to meet its environmental obligations in the future, but will endanger the future viability of the company." According to an August 2002 article in the Spokesman Review, ASARCO has over \$1 billion in liabilities at its mining and smelting operations in the U.S. ASARCO, one of the largest mining corporations in the United States, was purchased by Mexican corporation Grupo Mexico in 1998.

Even if regulatory agencies have the capacity to monitor the financial health of every corporation that operates in the state, it is often too late to put in place other financial instruments once a corporation's financial difficulties become apparent.

# Alaskans for Responsible Mining

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## FACT SHEET: The Role of Metal Mining in the Alaska Economy

Excerpted from a paper written by Thomas Michael Power, Ph.D.  
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In 2002 Dr. Thomas Michael Power, acting as an independent economic consultant, prepared a report investigating the factual basis of metal mining's assumed importance in Alaska's economic future. Power concluded that mining plays a relatively small role in the Alaska economy despite its sometimes mythological status.

1. Metal mining is directly responsible for only about one-half of one percent of Alaskan jobs and personal income: about 2,000 of Alaska's 400,000 jobs and \$87 million of Alaska's \$18.6 billion of personal income in the year 2000. Even after applying any reasonable "multiplier" to these numbers, metal mining would continue to provide only a small sliver of total Alaskan jobs and income.
2. In the "mining dependent" cities of Fairbanks and Juneau, metal mining is directly responsible for about one and two percent of total jobs, respectively.
3. This very modest role of metal mining is often obscured by exaggerated estimates of metal mining's impact built around double and triple counting or counting value that is not created in Alaska. Such exaggerated estimates of impacts ignore basic economic accounting rules established almost a century ago.
4. Because of its capital and land intensive nature and relatively modest use of labor, the payroll associated with Alaska metal mining represents only about 8 percent of the \$1.1 billion value of metal mine production.
5. During the 1990s, while the real value of metal production in Alaska rose 83 percent, from about \$600 million to \$1.1 billion, metal mine payroll rose only 5 percent.
6. Although metal mining, because of its capital intensity, contributes significantly to local governments' property tax bases, its contribution to total local government revenues, including all revenue sources, is much smaller. The Fort Knox Mine contributes about one percent of the total revenues received by local governments in the Fairbanks-North Star Borough. The Greens Creek Mine contributes about one-half of one percent of the revenues received by local governments in the City and Borough of Juneau.
7. Mine license taxes and production royalties on state owned minerals yield only a few million dollars each to total state revenues that total almost \$6 billion even without counting the revenue flows into the Permanent Fund. Together these two sources of revenue from metal mining contribute less than one-tenth of one percent of total Alaskan government revenues.
8. Despite the high wages paid in metal mining, that industry is not usually associated with prosperous communities across the nation because (1.) metal commodity prices are unstable, causing instability in employment and payroll; (2.) the life of a contemporary metal mine tends to be relatively short, 5 to 15 years; (3.) the labor needs of metal mining operations are constantly falling as technological change displaces workers; only constant expansion of mine production can offset this; and (4.) environmental damage associated with metal mining discourages people and businesses from locating near mining operations.
9. Inadequate reclamation laws and reclamation bonding requirements can leave state governments with large reclamation financial obligations and near permanent damage to the natural environment. Both have negative long-term economic impacts.
10. The popular economic base approach to thinking about the Alaskan economy that focuses on the assumed special role of oil production and transportation, mining, other natural resource industries, manufacturing, and the federal government as key economic drivers is incomplete and inadequate. It cannot explain the ways in which the Alaskan economy has been changing. For instance, during the 1990s while employment in these key sectors declined 25 percent, employment in other sectors expanded 25 percent. While real income from these sectors declined 7 percent, income from other sectors expanded by 31 percent. The Alaskan economy is more diverse and resilient than the popular economic base view suggests.