



# P.S.V.O.A.



## NEWSLETTER

MAY 2007

### **MERGERS AND FISH FARMS THE NEW PROCESSOR PARADIGM?**

No fishermen or fishing organization wants further consolidation of the processing sector or its movement toward aquaculture to meet raw product needs. These developments eliminate competition and have a chilling effect on ex-vessel pricing. Unfortunately, the processing sector is moving in just that direction.

Last month Icicle Seafoods, which has marketed Chilean farmed salmon since the mid-1990s, announced the formation of its own Chilean company to produce farmed salmon and trout. Icicle is partnering with a well-established group in the Chilean salmon industry. Among the reasons for the new company, Icicle cited lack of Alaska air freight and the need for greater supplies of fresh salmon.

Almost on cue, rumors have Trident Seafoods partnering with farmed salmon giant, Marine Harvest, to buy finished products from the aquaculture company and sell through the Trident label and distribution network. Although unconfirmed, there should be no doubt that Trident will continue to rely on farmed salmon for future growth.

Fishermen should find these announcements both ironic and troubling. When PSVOA supported the 2003 application of a Russian company to process salmon in Alaska state waters, these same companies argued that foreign processors would have a competitive advantage over U.S. companies. They maintained this position even in the face of inadequate processing capacity and plummeting ex-vessel salmon prices. Yet now fishermen selling to these companies will face direct competition from substitute supplies of farmed salmon - salmon produced at a significant competitive advantage due to low wages and lack of environmental regulations.

Far more troubling is the potential impact these developments will have on recent successes to extol the virtues of wild Alaska seafood. How does the "Alaska wild" message not become muddled when the largest processors of wild Alaska salmon sell farmed salmon? What will be the long-term incentive for these companies to support country of origin labeling and the attributes of wild Alaska seafood as aquaculture products comprise an increasing share of their total sales? Will these companies support a higher ex-vessel and wholesale price structure for wild seafood and acknowledge the relative inadequacies of farmed salmon? And will these companies spur efforts by aquaculture producers and sellers to seek a Marine Stewardship Council (MSC) or some other certification of sustainability?

Turning to processor acquisitions and consolidation, Maruha, Japan's top seafood supplier, purchased Nichiro, Japan's third largest seafood company. Maruha owns the huge Westward and Alyeska groundfish and crab processing plants in Dutch Harbor while Nichiro owns Peter Pan Seafoods, which is a major Alaska crab and salmon producer. State officials are concerned Maruha will become too dominant in the Bering Sea by consolidating processing plants and ships.

Closing out a busy month, the Bristol Bay Economic Development Corporation (BBEDC) has purchased a 50% stake in Ocean Beauty Seafoods. BBEDC is one of six CDQ companies that harvest Bering Sea fish and crab set aside for the benefit of Western Alaska villages. This acquisition, however, may actually improve the salmon industry in Alaska, particularly Bristol Bay salmon, by combining BBEDC capital with Ocean Beauty marketing and sales.

Processing companies like any other business are motivated by market share and profits; and will alter their methods of operation and form strategic partnerships to achieve those objectives.

## HIGH SEAS FISH FARMS

The Bush Administration has reintroduced the "National Offshore Aquaculture Act of 2007" to allow ocean aquaculture or floating fish farms in federal waters between 3 and 200 miles off the U.S. coastline. Senator Stevens is supporting amendments requiring any such project to comply with U.S. labor laws, including the Jones Act; and allowing individual States or federal fishery management councils override or veto authority. Alaska Governor Sarah Palin has also lodged a strong objection asking for a five-year moratorium on any aquaculture developments until environmental and economic impacts to fishing communities are properly evaluated.

## 2007 ALASKA SALMON CATCH PROJECTIONS (in millions of fish)

Area	Pink	Chum	Sockeye	Coho	Chinook
Southeast	47.0	15.7	1.5	2.8	0.4
PWS	41.0	3.8	2.4	0.6	0.1
Kodiak	12.5	0.9	1.5	0.5	0.9
Bristol Bay	-	1.0	26.3	0.1	0.2
Chignik	0.9	-	1.3	-	-
Peninsula	5.5	0.1	4.0	0.1	-
Cook Inlet	1.1	0.1	3.6	0.2	-

## SOUTHEAST "BUYBACK" REMAINS ON HOLD

This program has taken the old adage "Good things are worth waiting for" to a new level of patience. It has been more than two years (December 2004) since Congress enacted authorizing legislation, and a \$500,000 appropriation for the cost of subsidizing a \$50 million buyback loan as required under the Fair Credit Reform Act. The NMFS immediately objected asserting the legislation conflicted with federal law and that the ex-vessel value of the Southeast seine fishery could not support the \$50 million loan amount. Over the next two years we engaged in what seemed like endless discussions and analysis to clarify the respective roles of the State of Alaska, NMFS and the Southeast Revitalization Association. Of course along the way we also dealt with the conspiracy theorists who relentlessly challenged the propriety of PSVOA (and SEAS) activities rather than the efficacy of the program. Finally, in January Congress amended the 2004 legislation by reducing the loan to an amount no greater than \$25 million

and addressing the overlaps between federal and state law.

Regrettably, NMFS now maintains that the earlier \$500,000 appropriation has expired and is no longer available to satisfy the needed loan subsidy cost. Moreover, NMFS states that that no portion of the existing \$4 million grant for the program can be utilized nor would they allow PSVOA to directly pay the \$250,000 subsidy cost—1% of the \$25 million loan. We need a new Congressional appropriation. If this amount cannot be inserted in the supplemental appropriation bill Congress is now considering, we must wait until the fall. Either way, we remain confident the program will be fully implemented before the 2008 season. Certainly we are subject to criticism that the program is overdue, but recent upturns in the fishery only reinforce the need.

## WASHINGTON LEGISLATURE

The Washington Legislature passed Senate Bill 5447 requiring WDF&W to develop a draft coastal crab buyback plan by December 1, 2007. The plan must provide for the purchase and permanent retirement of permits and alternative funding sources. The plan must further provide for voluntary industry participation and have neutral impacts on crab fisheries off the coast of Oregon and California.

Unlike many coastal fisheries operating under federal management plans, Congress has authorized Washington, Oregon and California to manage the coastal Dungeness crab fisheries in federal waters. The crab fishery is the most valuable commercial fishery in Washington State highlighted by a record 2005 catch of 21 million pounds with an ex-vessel value of over \$30 million.

Responding to expanding tribal treaty rights and non-tribal harvest efficiencies, WDF&W has taken various measures over the years to restrict the fishery. These measures have included limited entry, pot limitations, vessel size and transfers, and interstate agreements. Even with these changes, the Legislature rightly recognized the need for further action to ensure a sustainable fishery. With increasing membership participation in the fishery, PSVOA will likely take a prominent role in the design and implementation of any future crab buyback program.

*(Continued on page 3)*

PSVOA also arranged a legislative workshop on April 11th to cast light on the current WDF&W policy to provide gillnets with up to three times more fishing opportunities than purse seines in the fall chum fishery. The workshop did result in a curtailment of gillnet time for 2007, but we are still a long way from historic fishing times.

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This past fall PSVOA represented a member at a Washington Employment Security administrative appeal and successfully argued that wages earned in federally managed waters are not reportable for unemployment purposes. PSVOA previously established that Washington fishing vessels without a land based office are not required to report wages earned in Alaska.

## ALASKA LEGISLATURE

The 2007 session is largely focused on legislation to promote development of Alaska's natural gas resources. With the decline in North Slope oil production and resulting decline in state revenue, there is a growing urgency to begin a gas project. This issue plays a pivotal role in Alaska's economic future and ultimately to the health of the fishing industry in the form of ADF&G and ASMI budgets, transportation and tax structure.

The most notable fisheries bill is House Bill 188 introduced by Representative Peggy Wilson of Wrangell and strongly supported by the Sitka Herring Group, which wants an equal share allocation for the Sitka Sound sac roe herring fishery.

The bill clarifies and reaffirms the authority of the BOF to allocate fishery resources among "and within" a fishery. The bill would also ensure that existing regulations, including long-standing salmon allocations within the Bristol Bay salmon areas, equal share allocations in the Chatham and PWS blackcod fisheries and other examples, would not be subject to future legal challenges. To gain UFA support, the bill expressly provides that the BOF is not given authority to create Chignik style co-operative fisheries or to allocate to an individual fishermen based on individual catch history (IFQ).

*[The Sitka herring fishery ended on April 2<sup>nd</sup> with four separate openings harvesting 11,770 tons compared to a 2006 harvests of 10,450 tons. Good roe recovery and reduced Canadian quotas will result in higher than expected ex-vessel prices.]*

Kenai sportsmen and charter operators are again hatching plans to reallocate the Cook Inlet salmon fishery. Testifying before a House Committee on Economic Trade and Tourism, sport charter representatives stated that BOF proposals for the upcoming meeting cycle request limiting the commercial catch to whatever remains after all other user groups, including tourists, catch their limits. If not successful at the BOF, legislators have committed to introduce legislation to create a sport priority in Cook Inlet. A similar reallocation plan was proposed under a 1996 ballot initiative, which the Alaska Supreme Court ruled was not permissible under the initiative process.

## THERE'S GOLD, OIL (AND SALMON) IN BRISTOL BAY

Can gold and oil exploration co-exist with the world's largest salmon runs? History says no, but that may not be a sufficient reason to stop exploration. The Pebble Mine project is a proposal by Northern Dynasty Minerals to build one of the largest gold and copper mines in the world. The tentative site sits at the headwaters of the Nushagak and Kvichak Rivers. UFA and Bristol Bay Reserve (BBR) oppose the project.

Turning to oil, Congressman Jay Inslee (D-Wash) and others have filed a bill to reinstate the ban on offshore oil and gas drilling in Bristol Bay. The area has been protected from offshore exploration since the Exxon Valdez disaster. This year the Bush Administration lifted the ban as part of a plan to open the Outer Continental Shelf to oil exploration.

BBR Board members **Buck Gibbons** and **Mike La-Russa** were elected to serve on the BBRSDA Board of Directors. Approximately one-third of eligible permit holders voted.

## PUGET SOUND SALMON OUTLOOK

A poor Fraser sockeye forecast points to a non-treaty commercial catch of only 100,000 with any fishery occurring in early August. The pink run forecast of 19.5 million would provide substantial fishing opportunity with much dependent on the level of chinook bycatch and available buyers.

*(Continued on page 4)*

The fall non-treaty chum catch for all areas is projected at 675,000. Purse seines are scheduled to start On October 12<sup>th</sup> in San Juan (7 & 7A) and October 24<sup>th</sup> in South Sound (10 & 11) and Hood Canal (12 & 12B).

## ALASKA HALIBUT AND SABLEFISH

The IPHC and NMFS published separate rules setting a March 10th opening for direct fishing of halibut and sablefish under the IFQ program. The 2007 halibut harvest allocation is 50.2 million pounds with over half allocated to Area 3A. The 2007 allocation is down 6% from least year with the biggest decline in Area 2C. The 2007 sablefish allocation of 33.5 million pounds is the same as 2006. Halibut prices appear to be stabilizing at slightly less than \$5.00 per pound with sablefish in the 3.50 to \$4.80 per pound range. Both of these fisheries now have MSC certification.

## NEWS BRIEFS

⇒ Office staff news: Amy Dossett will be leaving PSVOA in June and will be going back to school to pursue a career in accounting. Amy was with us for over five years and we will miss her and all her hard work greatly. Good luck Amy! Amy is currently training Anna Marsh to be her replacement.

⇒ The PSVOA 2007-2008 Member Directory will be in the mail later this month. The 72<sup>nd</sup> annual membership meeting and dinner/dance will be held on Saturday, November 17<sup>th</sup> at the Embassy Suites Hotel in Lynwood, Washington.

⇒ The Seine Vessel Reserve (SVR) 2006 Financial Statement will also be mailed later this month.

Preliminary figures show a \$.35 million increase in surplus and a projected 15% return of member contributions. SVR is committed to providing you with comprehensive and price competitive coverage under a single policy of insurance. Because we charge lower rates than other hull pools and must incur reinsurance expenses to provide high limit P&I and pollution coverage, SVR can never return 100% of member contributions. However, claims will always dictate the bottom line. Both the SVR and PSVOA Boards urge all members to do everything under your control to operate safely and eliminate claims.



*Have a great season this year.*  
— **Rob, Bob, Rachel,**  
**Amy & Anna**



## ASSOCIATE MEMBERS

*\*Also members of the Pacific Salmon Treaty*

Alaska General Seafoods*	Norquest Seafoods*
Ballard Hardware & Supply	Northwest Farm Credit
Bank of America	Ocean Beauty Seafoods*
Cloud Trading	Peter Pan Seafoods, Inc.*
Covich-Williams Co., Inc.	Petersburg Shipwright, Inc.
Delta Marine Industries	Phil Hingston, CPA
Fishing Vessel Owners	Puget Sound Hydraulics
Marine Ways	Radtke Marine, Inc.
Hammer & Wilkan, Inc.	Redden Marine Supply, Inc.
Icicle Seafoods*	Seattle Marine Supply
LFS, Inc.	Stew Ellison, Merrill Lynch
Monterey Fish Company	Trident Seafoods*
Norcoast Marine Services	

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