



P.S.V.O.A.



NEWSLETTER

OCTOBER 2003

SALMON FISHERMEN LIKELY QUALIFY FOR TRADE ASSISTANCE

Last month the United Fishermen of Alaska and others filed petitions on behalf of all Alaska, Washington and Oregon salmon fishermen for federal assistance under the U.S. Department of Agriculture's (USDA) new Trade Adjustment Assistance (TAA) program. The petitions will be evaluated and decided separately. The USDA will announce no later than October 25th whether salmon fishermen qualify for assistance.

The TAA program was originally established to provide retraining and cash benefits to farmers when foreign imports cause a decline in crop prices. However, due to the efforts of U.S. Senator Lisa Murkowski, USDA has now extended the program to include fishermen.

Under this year's program, salmon fishermen who operated in 2002 can qualify for cash benefits of up to \$10,000 annually when 1) increased farmed salmon imports have caused a price decline and 2) the national average price for salmon is less than 80% of the preceding 5 – year average. We are reasonably confident that the Alaska and Washington petitions meet both conditions. The individual fishermen must also show a decline in net fishing income from 2001 to 2002.

The UFA petition requested use of a price average for all five salmon species. UFA reasoned this approach would later allow different regions or gear types in Alaska to individualize their petitions. We now believe USDA will simply average all five species together to calculate an average price. This method would have Alaska salmon fishermen receiving approximately \$.03 (3 cents) per pound for their 2002 catch -- a favorable result for the high volume seine fleet. For example, fishermen who landed over 300,000 pounds of salmon in 2002 would qualify for the \$10,000 maximum payment. Crew members would also be eligible for benefits based on their percentage of the catch.

The TAA program has \$90 million available for 2002 qualifying petitions. In addition to salmon fishermen, petitions have been filed by Maine blueberry growers, South

Carolina shrimpers and perhaps the catfish industry. If qualifying petitions exceed the \$90 million amount, which we do not predict, benefits will be prorated at a lower level.

Once salmon fishermen are found eligible to receive TAA benefits, individual fishermen will have 90 days to apply. Before applying you must receive "technical assistance" from USDA, which means an explanation of how the TAA program works, including preparation of your application. USDA will have offices throughout Alaska and Washington to provide this assistance. Of course PSVOA will work closely with USDA and membership to streamline the application process.

SEAK SALMON FLEET CONSOLIDATION

Governor Frank Murkowski recently came out in support of the Southeast consolidation plan in a letter to U.S. Senator Ted Stevens. This followed earlier letters of support from local communities and every major Southeast salmon processor. Unfortunately, letters alone cannot guarantee success and the realities of federal budget deficits cannot be ignored. The original consolidation plan called for a \$53 million funding package. It now appears the program will be scaled back to \$40 million. Furthermore, the entire funding package may not be completed in 2003 — although this may not prevent implementation of the program prior to the 2004 Southeast salmon season. We expect to provide a more definitive report at the annual membership meeting.

While focused on funding, other steps have been taken to implement the program. SEAS has formed a companion nonprofit association, Southeast Revitalization Association, which will administer the program. This association will also bear the responsibility of developing the consolidation plan ultimately voted on by the permit holders. This new association's Board of Directors is:

- | | |
|---------------------------|---------------------------|
| Jim Bacon, Ketchikan | Dan Castle, Wards Cove |
| Troy Denkinger, Sitka | Dean Haltiner, Petersburg |
| Tom Manos, Girdwood | David Street, Ferndale |
| Jim Zuanich, Lummi Island | |

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SOUTHEAST CONFERENCE HEARS CASE FOR CONSOLIDATION

Community support for the Southeast consolidation plan is essential. The following are excerpts from remarks by executive director, Rob Zuanich, to the Southeast Conference meeting last month in Haines Alaska.

... Commercial fishing is the State's largest private employer and touches literally every community. We know the health of a particular fishery fluctuates with Mother Nature and the marketplace. Yet what we once described as annual fluctuations in Alaska's fisheries have become trends that are going in very opposite directions.

Our federal water fisheries are extremely healthy. The Bering Sea pollack fishery is a world model recording record production and profits. Likewise our halibut and sablefish stocks are healthy and enjoying high prices. And on the horizon, controversial restructuring of the Bering Sea crab and Gulf of Alaska ground fisheries will no doubt lead to greater efficiencies and economic benefits.

Conversely, Alaska's state water fisheries are stagnant highlighted by a deeply troubled salmon industry, which has long been a major contributor to the Southeast economy. How do we explain these drastically different circumstances? Two major factors cannot be overlooked:

First, the federal fisheries do not face real competition from foreign aquaculture. For now, these fisheries contribute to a relatively finite supply of fish into stable markets with upward pressure on pricing.

Secondly, the federal fisheries have changed the way they do business. New capital and existing assets are now invested to maximize profits. Simply put, if one fishing boat can do the job of three—then only send one boat to the fishing grounds. Similarly, don't open two processing plants if one can handle all of the catch. Senator Ted Stevens coined this new philosophy the "rationalization" of the fishery. Rationalization has obvious opponents. It undeniably displaces fishermen and processors while granting new rights to others—and this displacement is felt in our communities.

Despite its critics, rationalization must inevitably come to our state water fisheries, with an overriding emphasis on salmon. Throughout the State, we have too many fishermen catching salmon being purchased by a shrinking number of processing companies. This is no longer the 1980's when inefficiencies could be absorbed by rising prices. Today the salmon industry will support only so many family wage jobs in Alaska. Maximizing these jobs will require a three-pronged approach:

First, we must reduce the number of permits to a level that is commensurate with existing and potential processing capacity. This equilibrium should forge a necessary partnership between processors and fishermen, who have

historically been at odds with one another. Equally important, reducing the number of permits, if done thoughtfully, should result in a higher percentage of the remaining permits and related income staying in Alaska. Last year UFA spearheaded the passage of legislation that allows fishermen to establish regional programs to reducing permits and resulting fishing capacity. Permit holders in the Southeast purse seine salmon fishery have utilized this new law to develop a plan that accomplishes the following:

1. Substantially reduce the number of limited entry permits;
2. Provide economic assistance to permit holders who will no longer participate in the fishery; and
3. Offer loans to permit holders residing in small, fishery dependent communities. The loan will be incrementally forgiven, provided, the permit holders continues to reside in that community and participates in the fishery.

The plan is purely voluntary, partially funded by a tax on the catch of those remaining in the fishery, and would be implemented only if approved by two-thirds of all permit holders. This approach, if ultimately approved by the permit holders, will provide a blueprint for all of Alaska's state water fisheries. Permit reduction alone, however, is not the complete solution.

Next, we need a business plan. For example, what do existing salmon processing companies see for the future? Do they intend to expand or reduce current processing levels? Do they foresee new capital improvements or adding value to salmon products in-state? Is there a place or a need for foreign processors who admittedly would operate under a different set of rules? On the production side, do we need more or less salmon? Are hatcheries needed or do they simply contribute to overproduction and a lowering of prices paid fishermen and processors. Without fully answering these questions we will continue a short-term outlook that relies on the old fishing adage that next year may be better.

Finally, we must continue to market the unique qualities of Alaska salmon, which comprises a smaller and smaller share of world consumption. ASMI has been taking the lead role in this area. However, industry must now be a leader. Last year Senator Stevens passed legislation with accompanying federal dollars to create an industry directed Alaska Seafood Marketing Board reasoning that industry, unlike ASMI, actually owns the product.

These changes will not happen overnight and most certainly they will face challenges and outright opposition. However, these changes offer the best chance to stabilize the industry and promote new investment. And just maybe, we can tell the next generation of Alaskans that salmon fishing is still a great way to make a living.

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A CLOSER LOOK AT PROCESSOR SHARES

The raging debate over a plan to “rationalize” the Bering Sea crab fishery centers on the question of whether two dozen seafood processing companies should receive the right (arguably in perpetuity) to purchase 90% of the catch. The plan also creates a far less controversial IFQ system where each of about 300 crab fishermen and certain Alaskan communities would receive (arguably in perpetuity) percentage shares of the seasonal catch limit. Congress enacted a similar plan for the Bering Sea pollock fishery in 1997. The 1993 halibut and sablefish IFQ system made no such provision for processors.

No fisherman or fishing organization wants processor shares or quotas. The scheme largely eliminates competition and has a chilling effect on ex-vessel prices. Many of the arguments appearing in the trade journals against processor shares spotlight this issue. However, the simple fact is no processor share system can proceed without the agreement of the affected fishermen. Do Bering Sea crab fishermen support processor shares? No. Do crab fishermen object to processor shares, if in turn, they receive an IFQ system? No. There is a clear distinction between outright opposition and begrudging acquiescence.

Those crab fishermen actively opposing processor shares only want an IFQ system. This is perfectly understandable. However, it appears a strong majority of the crab fishermen have concluded that processors shares and an IFQ system are a package. Those crabbers not speaking out against processor shares have closely weighed the pro and cons and determined that the negatives are still outweighed by the potential for increased wealth, profits and safety.

Many have questioned why UFA has not strongly opposed processors shares. UFA has individual and group members in the crab fishery who do not want UFA to remain neutral. Why has PSVOA not opposed processor shares? Because we have members operating in the Gulf of Alaska cod fisheries who believe rationalization of that fishery will require recognition of existing processor interests.

Some are fearful that federally imposed processor shares in federal water fisheries will creep into state waters. In fact, some have even claimed that processor shares were a condition of gaining their support for the Southeast salmon consolidation program. These concerns and allegations are wholly unfounded and terribly misguided.

First and foremost, the Alaska State Constitution prohibits any “exclusive right to a fishery” in state waters – let alone an exclusive right to process the fish. It is important to remember that the 1971 limited entry amendment to the Constitution did not create special fishing privileges. Rather, the amendment only allowed the state to limit entry into commercial fisheries to achieve certain conservation and socio-economic goals. This is the major issue now before the Alaska Supreme Court involving the

Chignik cooperative fishery established by the Board of Fisheries (“BOF”). Among other things, the Court will consider whether the BOF could legally allocate a portion of the Chignik fishery to a permit holder who does not even participate in the fishery. There is no question that processors are closely watching this case. If the Chignik style harvest cooperative is constitutional, then processors may likely seek protection within a cooperative system that could lower harvest costs, improve quality and increase fishing profits.

Alaska’s Legislative Salmon Task Force has asked that the BOF not to consider any further cooperative harvest proposals until it can develop public policy recommendations. PSVOA is an active contributor in this discussion, which no doubt will frame the respective interests of fishermen, processors and communities to Alaska’s state water fisheries.

UPCOMING BOF MEETINGS

The BOF will form two stakeholder panels at its November 12th-17th statewide finfish meeting in Anchorage on issues of particular interest to the seine fleet:

1. Re-examine the Prince William Sound (“PWS”) management plan and the cost recovery plan for PWSAC. Last February PWS seiners unsuccessfully argued that they were not receiving their BOF established catch allocation and that PWSAC cost recovery disproportionately impacted seiners.
2. Develop solutions to problems related to implementation of a spawn-on-kelp fishery in Sitka Sound.

AK COMMERCIAL SALMON CATCHES

(in thousands of fish)

Area	Pink	Chum	Sockeye	Coho	Chinook
Southeast	52.4	10.9	1.4	2.1	0.3
PWS	49.5	3.7	2.8	0.5	0.05
Kodiak	14.1	1.2	4.1	0.4	0.02
Chignik	0.5	0.06	1.1	0.1	--
Peninsula	4.1	0.7	2.5	0.2	--
Cook Inlet	0.9	0.2	4.2	0.1	0.02
Bristol Bay	0.04	0.7	14.9	--	0.04

PUGET SOUND SALMON

Commercial catches of Fraser sockeye were 85,000 of an allocated 115,000 under the Salmon Treaty. The Fraser pink catch reached 500,000 with little U.S. or Canadian processor interest in an estimated 28 million run size. This takes the question of over escapement to a new level.

A number of seiners were issued citations for failure to trail their catch. WDF&W maintains this requirement reduces chinook mortality.

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Early chum catches are in line with the projected 1 million run returning to South Sound and Hood Canal. Although not small, the number pails in comparison to last season when the commercial seine catch alone reached 1.1 million. The Salmon Treaty also allocates a 150,000 Fraser chum catch to the Area 7/7A fishery.

ANNUAL MEETING NOTICE

PSVOA will hold its 68th annual membership meeting at the Embassy Suites Hotel at Lynnwood on Saturday, November 22nd starting at 10 a.m. The guest speaker is Phil Anderson, WDF&W intergovernmental policy director, who will discuss the coastal dungeness crab, sardine and Puget Sound salmon fisheries. The meeting will be followed by lunch and the annual meeting of the Seine Vessel's Reserve ("SVR"). Meeting agendas will be mailed later this month. Responding to high insurance costs, the PSVOA Board of Directors elected to forego the dinner/dance, with an estimated savings of \$25,000.

The Bristol Bay Reserve ("BBR") will also hold a membership meeting on at the Nordby Center at Fishermen's Terminal on Thursday, November 20th starting at 10 a.m. In addition to insurance matters, the meeting will also focus on what role BBR might play in restructuring of the Bristol Bay salmon fishery.

INSURANCE UPDATE

SVR claims were at a record low during the policy period ending October 1st. This will allow SVR to dramatically lower 2004 reinsurance costs. For that reason, your insurance coverage was extended through 2003 without cost except a small P&I charge for non-Puget Sound salmon fisheries. SVR will then resume annual coverage on January 1, 2004.

A consolidating fishing industry requires SVR to constantly examine how it can maintain affordable insurance coverage for a far-reaching fleet of vessels. This year's SVR annual meeting will focus on 2004 rates, distribution of prior years' surplus, and required long-term surplus levels.

NEWS BRIEFS

⇒ USDA canned pink salmon purchases for 2003 now total \$8.5 million. The most recent purchase from Icicle Seafoods was for a 24 can case price of just under \$17 or 70 cents per can. The recent introduction of canned Chilean salmon into the U.S. market caused this year's shutdown of some pink salmon purchases in PWS.

⇒ Alaska Seafood Market (ASI), operating a 200,000 square foot seafood factory in Anchorage, abruptly closed its doors this month. Ten years ago the State of Alaska partnered with Taiwanese business interests in an attempt to create a sophisticated seafood marketing industry. Alaska contributed \$50 million to the project, which from the start was massively overcapitalized and premised on a flawed business plan.

⇒ Nearly 90% of the 59 million Alaska halibut quota has been taken. Prices in Homer are upwards of \$3.50 per pound and 3A quota sales are nearing \$15.00 per pound. Wow!



ASSOCIATE MEMBERS

**Also members of the Pacific Salmon Treaty*

- Alaska General Seafoods*
- Ballard Oil Co.
- Bank of America
- Cloud Trading
- Cochrane & Hellman, P.C.
- Covich-Williams Co., Inc.
- Delta Marine
- Fishing Vessel Owners
- Hammer & Wilkan
- Icicle Seafoods*
- Integrated Marine
- LFS, Inc.
- Monterey Fish Company
- Montgomery Maritime
- Norcoast Marine Services

- Norquest Seafoods*
- Northwest Farm Credit
- Ocean Beauty Seafoods*
- Paul Anderson, Attorney
- Peter Pan Seafoods, Inc.*
- Phil Hingston, CPA
- Redden Marine Supply, Inc.
- Seattle Marine Supply
- Stew Ellison, Merrill Lynch
- Trident Seafoods*



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