Challenges and Strategies for the Alaska Salmon Industry

by

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This is a presentation which I have given to a number of salmon industry groups over the past few months. My goal in this presentation is to describe the challenges facing the Alaska salmon industry and my personal opinions about strategies for addressing these challenges.
I think we can and will have a competitive, profitable and dynamic Alaska salmon industry.

But we have a lot of changes ahead of us before we get there.
CAUTION!

The Alaska Salmon Industry is complex, and the issues it is facing are complex.

My goal is to describe these issues and potential strategies for addressing them.

Because I have only a short amount of time, this presentation will unavoidably oversimplify these issues and strategies.

A lot more could be said on every aspect of this topic.
Conclusions

• The salmon industry is very important to Alaska—in particular to coastal communities.
• The Alaska salmon industry is facing an economic crisis.
• One cause of the crisis is competition from farmed salmon, which has severely depressed prices for Alaska salmon.
• But farmed salmon is only part of the problem: the salmon industry also faces other major challenges.
• The salmon industry is experiencing painful adjustments with severe economic and social consequences for Alaska.
• There isn’t any way to avoid painful adjustment. The issue is how best to create the conditions for a more profitable industry.
• Radical changes in salmon management are needed to provide a foundation for a profitable and successful industry.
• Changing the salmon industry will be extremely difficult and will take time—but we need to begin talking about where we want to go and how to get there.
Outline

PART I: CHALLENGES

1. Why Should We Care About the Salmon Industry?
2. Important Things to Remember About the Alaska Salmon Industry
3. The Challenge from Farmed Salmon
4. Other Challenges for Alaska Salmon
5. The Crisis in the Alaska Salmon Industry
6. What Will Happen If We Don’t Change?

PART II: STRATEGIES

7. The Salmon Strategy Debate
8. Thoughts on Potential Strategies
9. The Real Problem is the Current Management System
10. Changing the Management System
11. How Do We Get There From Here?
PART I: CHALLENGES
1. Why Should We Care About the Salmon Industry?
Salmon fishing employs tens of thousands of Alaskans.
Fishing by Alaska Residents in 2000

<table>
<thead>
<tr>
<th></th>
<th>Number of Alaska residents who reported landings*</th>
<th>Estimated gross value of landings by Alaska residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salmon</td>
<td>6,200</td>
<td>$163 million</td>
</tr>
<tr>
<td>Other Species</td>
<td>1,514**</td>
<td>$148 million</td>
</tr>
<tr>
<td>All species</td>
<td>7,714</td>
<td>$311 million</td>
</tr>
</tbody>
</table>

Source: Commercial Fisheries Entry Commission.
*For each person reporting landings there may be several crew members.
**Persons who landed other species but not salmon.
Salmon fishermen aren’t only from coastal communities. Many urban residents also fish for salmon.

### Overview of Anchorage Salmon Permit Holders, 1999

<table>
<thead>
<tr>
<th>Fishery</th>
<th>Number of permits held</th>
<th>Number of permits fished</th>
<th>Gross earnings ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol Bay drift gill net</td>
<td>129</td>
<td>116</td>
<td>5.4</td>
</tr>
<tr>
<td>Bristol Bay set gill net</td>
<td>149</td>
<td>135</td>
<td>3.2</td>
</tr>
<tr>
<td>Cook Inlet set gill net</td>
<td>153</td>
<td>118</td>
<td>1.9</td>
</tr>
<tr>
<td>Prince William Sound drift gill net</td>
<td>40</td>
<td>34</td>
<td>1.6</td>
</tr>
<tr>
<td>Other salmon fisheries</td>
<td>256</td>
<td>144</td>
<td>8.3</td>
</tr>
<tr>
<td>Total</td>
<td>727</td>
<td>547</td>
<td>20.5</td>
</tr>
</tbody>
</table>

Source: Commercial Fisheries Entry Commission.
Salmon processing employs thousands of Alaska residents.

<table>
<thead>
<tr>
<th>Number of <strong>Alaska resident</strong> workers in seafood processing in 2000</th>
<th>6,418 workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings of <strong>Alaska resident</strong> workers in seafood processing in 2000</td>
<td>$104 million</td>
</tr>
</tbody>
</table>

Note: These workers also process other species besides salmon.
Source: Alaska Department of Labor.
Alaska’s coastal communities are heavily dependent on salmon fishing and processing for jobs, income and taxes.
The salmon industry is hugely important to Alaska.

- Salmon fishing employs tens of thousands of Alaskans.
- Salmon processing employs thousands of Alaskans
- Support activities for the salmon industry, such as transportation, employ thousands of Alaskans
- Alaska’s coastal communities are heavily dependent on salmon fishing and processing for jobs, income and taxes.
- The viability of salmon fishing and processing affects the viability of the entire Alaska seafood industry. Whether you can make money from salmon affects whether you can afford to fish for or process other species.
2. Important Things to Remember About the Alaska Salmon Industry
Salmon is only part of the Alaska seafood industry—and is no longer the most valuable part. Other species also face complex market and management issues. The future of the Alaska seafood industry—including salmon—depends upon how these issues are resolved for all species.

**Wholesale Value of Alaska Seafood Production**

Sources: Alaska Department of Fish and Game, National Marine Fisheries Service.
Alaska’s salmon industry is more than 120 years old and has a rich and turbulent history. The industry has rebounded from many earlier crises.
The resource situation is different for each salmon species. We have experienced a very significant decline in sockeye harvests. In contrast, pink and chum returns have remained strong.
Four major product forms are produced from Alaska salmon: canned salmon, frozen salmon, fresh salmon, and roe. The markets for each product form differ widely.
Salmon roe has a completely different market from frozen or canned salmon.
The markets differ for each species. Sockeye salmon depends on the Japan frozen market. Pink salmon depends on the canned domestic market.

Estimated End Markets for Alaska Salmon
(average annual metric tonnes, 1995-99)
Alaska has 27 different salmon fisheries which differ widely in value, number of permit holders, average earnings and average permit value.

Challenges and potential strategies for addressing them vary widely between fisheries.

<table>
<thead>
<tr>
<th>Area</th>
<th>Gear</th>
<th>Gross earnings ($millions)</th>
<th>Total permits</th>
<th>Resident permits</th>
<th>Resident share of permits</th>
<th>Share of permits fished</th>
<th>Average earnings per permit fished ($ 000)</th>
<th>Average permit value ($ 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol Bay</td>
<td>Drift gill net</td>
<td>65.5</td>
<td>1,896</td>
<td>916</td>
<td>48%</td>
<td>96%</td>
<td>35.9</td>
<td>80.5</td>
</tr>
<tr>
<td>Southeast</td>
<td>Purse seine</td>
<td>28.8</td>
<td>416</td>
<td>189</td>
<td>45%</td>
<td>86%</td>
<td>80.8</td>
<td>39.3</td>
</tr>
<tr>
<td>PWS</td>
<td>Drift gill net</td>
<td>22.2</td>
<td>541</td>
<td>393</td>
<td>73%</td>
<td>97%</td>
<td>42.3</td>
<td>59.3</td>
</tr>
<tr>
<td>PWS</td>
<td>Purse seine</td>
<td>19.2</td>
<td>268</td>
<td>197</td>
<td>74%</td>
<td>49%</td>
<td>147.8</td>
<td>22.0</td>
</tr>
<tr>
<td>Chignik</td>
<td>Purse seine</td>
<td>12.3</td>
<td>99</td>
<td>75</td>
<td>76%</td>
<td>100%</td>
<td>124.4</td>
<td>200.0</td>
</tr>
<tr>
<td>Cook Inlet</td>
<td>Drift gill net</td>
<td>4.2</td>
<td>577</td>
<td>384</td>
<td>67%</td>
<td>89%</td>
<td>8.3</td>
<td>32.3</td>
</tr>
<tr>
<td>Kuskokwim</td>
<td>Gill net</td>
<td>1.2</td>
<td>823</td>
<td>815</td>
<td>99%</td>
<td>76%</td>
<td>1.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Lower Yukon</td>
<td>Gill net</td>
<td>0.7</td>
<td>704</td>
<td>694</td>
<td>99%</td>
<td>80%</td>
<td>1.3</td>
<td>12.1</td>
</tr>
<tr>
<td>Other 19 fisheries</td>
<td></td>
<td>91.5</td>
<td>6,432</td>
<td>5,193</td>
<td>81%</td>
<td>62%</td>
<td>23.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>245.7</td>
<td>11,756</td>
<td>8,856</td>
<td>75%</td>
<td>73%</td>
<td>895.8</td>
<td>1103.1</td>
</tr>
</tbody>
</table>

Source: Commercial Fisheries Entry Commission, Basic Information Tables.
3. The Challenge from Farmed Salmon
A salmon farm in southern Chile
World farmed salmon production has been growing very rapidly—as has total world salmon supply. Alaska is becoming a smaller and smaller share of world supply.
Historically Norway has been the largest salmon farming production. But in recent years, the Norway-EU salmon agreement has slowed Norwegian growth, while Chilean production has grown very rapidly.
U.S. imports of farmed salmon have been growing extremely rapidly—in particular imports of fresh fillets.

*2001 data are estimates extrapolated from imports through August 2001. Imports through August 2001 were 64,395 metric tons of fillets and 42,131 metric tons of other products, for a total of 106,526 metric tons.
Farmed salmon increasingly dominates the U.S. fresh & frozen salmon market (farmed imports have increased by almost 1/3 since 1999)

**Estimated U.S. Salmon Consumption**

- Canned
- Fresh & frozen, domestic
- Fresh & frozen, imported
Declining U.S. sockeye harvests combined with rapidly growing Japanese imports of farmed coho and trout have drastically reduced the share of sockeye in the Japanese market.

Japanese Salmon Imports, May-April

![Japanese Salmon Imports Chart]

The chart shows the metrics in tons for different types of salmon imports from May to April each year from 1992-93 to 2000-01. The categories include Fresh Atlantic, Frozen Atlantic, Frozen Trout, Frozen Coho, Other Wild, and Frozen Sockeye.
Farmed salmon has significant competitive advantages over wild salmon with respect to production volume, timing and consistency.

<table>
<thead>
<tr>
<th></th>
<th>Wild Salmon</th>
<th>Farmed Salmon</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production volume</strong></td>
<td>Production volume is inconsistent from year to year and difficult to predict.</td>
<td>Farmers can accurately forecast production and guarantee supply commitments.</td>
</tr>
<tr>
<td><strong>Production timing</strong></td>
<td>Wild harvests must occur during a short summer run.</td>
<td>Farmed production can occur over many months or year-round.</td>
</tr>
<tr>
<td><strong>Product consistency</strong></td>
<td>There is wide variation in the size and quality of individual wild fish.</td>
<td>Farmed fish can be produced of consistent sizes and quality.</td>
</tr>
</tbody>
</table>
Fish tendering in salmon farming: fish are pumped live from pens. . .
... and brought to holding pens at processing plants—where they are kept alive until immediately before processing. Fish are pumped live from the holding pens . . .
. . . directly into the processing plant, where they arrive alive and in perfect condition . . .
Very modern and processing facilities operate efficiently year-round processing fish volumes which are known and planned for in advance.
Predictable and consistent volumes and sizes facilitate value-added production . . .
of a wide value of products produced to meet specific market demands of retailers.
At this farm, the computer has detailed information about the fish in each pen—and every other pen in the farms this company operates on three continents.
Fish farming in Chile benefits from abundant cheap labor
which allows for very careful handling: these headed and gutted fish are being chilled before filleting
Chilean workers pulling salmon pinbones by hand
Wrapped fillets destined for the American market
An individually labeled fish at a Norwegian processor (filling a special order for a wedding in Berlin)
A Norwegian fillet destined for the Japanese sushi market
Salmon farmers are expanding production into new markets including frozen salmon, canned salmon and roe. This canned salmon was in Fred Meyer in Anchorage in March 2002.

“Product of Chile”
The farmed salmon industry is consolidating into large, vertically integrated multinational companies with operations in many countries.

- Increasing market power
- Increasing economies of scale in production, processing, distribution and marketing
- Diversified production of other species—not just salmon
4. Other Challenges for Alaska Salmon
Farmed salmon is not the only challenge facing the Alaska salmon industry! Canned salmon hasn’t been competing with farmed salmon (yet) but it’s facing big market challenges.
With record pink salmon catches and an increase in the canned share of sockeye as frozen sockeye markets decline, Alaska has been producing record canned salmon packs.

**Alaska Canned Salmon Production**
As canned salmon production has risen, canned salmon prices have declined. Demand for canned salmon appears to be stagnant or declining.

**Pink Salmon Case Prices and Pack—Two Year Running Average**

- **Average case price, talls**
- **Total US & Canadian pack**

The chart illustrates the average case price of pink salmon over a two-year running average, with fluctuations in 1985-86 to 2000-01. The price trends show a decline over time, aligning with the text's assertion about production and demand factors.
Ocean conditions periodically exhibit “regime shifts” which are closely associated with North Pacific salmon returns. Good returns over the past two decades are partly due to favorable ocean conditions. Future changes in ocean conditions could significantly change future harvests.

**Alaska Salmon Harvests**
The drop in value of the Bristol Bay salmon fishery wasn’t caused by farmed salmon alone.

**Bristol Bay Salmon Harvest**

Source: Commercial Fisheries Entry Commission Basic Information Tables
As we think about strategies for the Alaska salmon industry, we should keep in mind that salmon runs will continue to change in the future—from year to year and from decade to decade.

Alaska’s salmon management ought to be designed to facilitate economic adjustment to future short-term and long-term changes in harvest volumes.
Other challenges for Alaska salmon . . .

- Increasing consolidation of retail trade by large multinational companies (Walmart, Costco) competing on price and efficiencies of scale—and seeking suppliers who can offer consistent supply of high volumes at low cost.
- Changing consumer demand as incomes rise, lifestyles change, demographics change, and the range of products available to consumers change.
- Seafood reprocessing migrating to low-cost countries
  - Chinese canning of Bumblebee Russian pink salmon
  - Chicken of the Sea shift of boneless/skinless salmon canning operations from U.S. to Thailand
- World economic slump
- Strong dollar
- Reallocation of Alaska salmon from commercial fisheries to sport and subsistence fisheries
5. The Crisis in the Alaska Salmon Industry
Over the past two years, very rapid growth in farmed salmon production outstripped the growth in demand, glutted farmed salmon markets and severely depressed prices for farmed (and wild) salmon.

- The farmed salmon industry faces a difficult period of adjustment to overproduction. How or when prices will rise to more profitable levels is uncertain.
- The world farmed salmon industry now faces classic overproduction problems similar to those affecting many agricultural products.
- One of the biggest factors affecting the future of Alaska salmon is the extent to which the world farmed salmon industry will be able to control production to keep prices higher (just as OPEC’s ability to influence prices affects the future of the Alaska oil industry).
Over the past two years, Japanese wholesale prices for farmed coho and trout have fallen by 50%.

Japanese Wholesale Prices in Yen/Kilo

Sources: Bill Atkinson's News Report (through 1/97); Fisheries Information Service (since 2/97). Prices are "low" prices for #1 4-6 lb fish.
Because of the decline in the value of the yen, wholesale prices have fallen either farther in dollar terms.

Japanese Wholesale Prices in $/lb

Sources: Bill Atkinson's News Report (through 1/97); Fisheries Information Service (since 2/97). Prices are "low" prices for #1 4-6 lb fish.
Lower wholesale prices in Japan have translated directly into lower prices paid to Alaska processors and fishermen.
A glut of farmed salmon supply led to a drastic drop in U.S. wholesale prices for farmed Atlantic salmon last year. *(Prices are for 6-8 lb fish)*
Lower prices combined with lower sockeye returns have led to a drastic drop in the ex-vessel value of the Alaska salmon harvest.

**Alaska Salmon Harvest Value**

![Bar chart showing the value of different types of salmon harvest in millions of dollars from 1990 to 2001.

- **Chum**
- **Pink**
- **Coho**
- **Sockeye**
- **Chinook**

From the chart, it is evident that sockeye salmon have the highest value, followed by chum, pink, cohoh, and chinook salmon.
There has been a tremendous erosion in the wholesale and ex-vessel value of Alaska salmon since the late 1980s.

**Wholesale Value, Ex-Vessel Value, & Processing Margin**

*After Adjusting for Inflation: All Alaska Salmon*

Note: "Processing Margin" = First Wholesale Value - Ex Vessel Value
The nature and causes of changes in the value of Alaska salmon fisheries differ significantly by species and fishery.

- Wholesale and ex-vessel prices have trended downwards for all species.
- A decline in *harvest volume* has also been a big factor in the decline in value of sockeye salmon (but not for pink or chum salmon).
- Remember: the issues are complex!
6. What will happen if we don’t change?
What will happen if we don’t change?

- Prices will continue to trend downwards over time (although they may rise for a time over this year’s very low levels)
- Where harvest volumes fall, prices will no longer increase to compensate for the loss of volume
- Fewer processors will operate.
  - There has been a dramatic exodus of processors from Bristol Bay and other areas
- Processors will increasingly limit what they buy and who they buy from
- Fishermen will lose markets.
- Finding crew will become more difficult. Boats will have fewer and less experienced crew
- Boat maintenance will be deferred.
- More fishermen will be injured and killed
What will happen if we don’t change? (continued)

• More permits will go unfished.
• Boat values will fall.
• Permit values will fall
Permit values have declined drastically in many of Alaska’s largest salmon fisheries.

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol Bay Drift Gill Net</td>
<td>159</td>
<td>197</td>
<td>142</td>
<td>81</td>
<td>35</td>
</tr>
<tr>
<td>Southeast Purse Seine</td>
<td>52</td>
<td>84</td>
<td>55</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>PWS Drift Gill Net</td>
<td>79</td>
<td>110</td>
<td>64</td>
<td>59</td>
<td>58</td>
</tr>
<tr>
<td>Kodiak Purse Seine</td>
<td>67</td>
<td>90</td>
<td>40</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>Bristol Bay Set Net</td>
<td>42</td>
<td>52</td>
<td>37</td>
<td>32</td>
<td>25</td>
</tr>
<tr>
<td>Statewide Power Troll</td>
<td>27</td>
<td>33</td>
<td>20</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Peninsula/Aleutians Drift Gill Net</td>
<td>233</td>
<td>350</td>
<td>257</td>
<td>146</td>
<td>123</td>
</tr>
<tr>
<td>Cook Inlet Drift Gill Net</td>
<td>106</td>
<td>125</td>
<td>61</td>
<td>32</td>
<td>22</td>
</tr>
<tr>
<td>Southeast Drift Gill Net</td>
<td>69</td>
<td>82</td>
<td>50</td>
<td>33</td>
<td>41</td>
</tr>
<tr>
<td>Chignik Purse Seine</td>
<td>274</td>
<td>363</td>
<td>191</td>
<td>200</td>
<td>186</td>
</tr>
</tbody>
</table>

Source: Commercial Fisheries Entry Commission, Basic Information Tables.
What will happen if we don’t change? (continued)

- More and more fishermen will default on commercial fishing loans.
- More and more fishermen will go bankrupt.
- ASMI funding from the salmon marketing tax will decline.
- Hatchery funding from aquaculture assessments will decline, and hatcheries will need to increase cost-recovery harvests to fund their operations.
- The State of Alaska and local governments will lose tax revenues.
- Fishing communities will experience “multiplier” effects as the amount of money circulating in the communities goes down.
- Sport and commercial groups will be increasingly successful in reducing allocations to the commercial fishery.
Who will bail out the Alaska salmon industry?

- The State of Alaska will not step in with large disaster payments or buyouts to relieve the economic pain in the commercial salmon industry.
  - The State will face increasing money problems of its own
  - The political support isn’t there for large spending increases to help the salmon industry.
- I doubt that the federal government will provide large sums of money for buyouts or disaster relief.
  - Salmon is not a federal fishery
  - Increasingly, the problems of the salmon industry are viewed as structural rather than a short-term disaster.
  - (But . . . I never cease to be surprised at what the Alaska delegation can do for us.)
Not all the news is bad. High-end niche markets provide a growing opportunity in selling to consumers who want high quality wild salmon.

- Those fishermen and processors who are good at producing products of consistent high quality and good at marketing them can take advantage of this opportunity to earn significantly higher prices for their salmon.
- But selling to higher-end markets isn’t easy. Consistent high quality and marketing costs money.
- High-end markets are limited in scale. The more salmon we try to sell to higher-end niche markets, the lower the price premium these markets will pay.
  - Even Copper River salmon, which is famous for good quality and good marketing, commands a much lower price in years when catches are strong, and every year prices fall off quickly once production from other Alaska fisheries enters the markets and begins to compete with Copper River salmon.
If we don’t change, the future isn’t bleak for everyone.

• Some salmon fisheries have more favorable resource conditions, market conditions and cost structures than others.  
  (Remember: the issues are complex!)

• Some fishermen and processors will always do better than others.  
• As processors and fishermen leave fisheries where they can’t make money, there will be more fish for those who remain, allowing their operations to become more efficient and profitable.
Why not just let “the market” and “competition” take care of it?

Isn’t this the standard way in which the market forces adjustment in an inefficient, overcapitalized industry: some of the players go bankrupt or withdraw from the industry, leaving a smaller and more efficient industry?
Three reasons not to “just let the market take care of it”

1. There will be a lot of pain—and no compensation—for those who leave the industry.
2. It will take longer to adjust. People will hang on as long as they can.
3. Under the current management system, market forces can’t and won’t allow the Alaska salmon industry to achieve anything close to its full economic potential.
   - The state mandates the use of inefficient boats and gear, keeping costs far higher and quality far lower than would be possible.
   - The current management system forces fishermen to race for fish, further adding to costs and lowering quality.
   - There is no market mechanism for exit from the fishery by fishermen able to cover variable costs: competition results in participation by many more boats than are needed to catch the fish.
   - The current management system discourages investment in processing and marketing.
PART II: STRATEGIES
7. The Salmon Strategy Debate
For more than a decade, there has been active discussion and debate within the Alaska salmon industry about what to do to address the challenges it faces. This debate has resulted in lots of ideas, less agreement, and almost no action.

- **Change the Board of Fish**
- **Mandatory quality standards**
- **Permit stacking**
- **Fish traps**
- **End interception fisheries**
- **Organize fishermen for more bargaining power**
- **Mandatory labeling**
- **Permit buybacks**
- **Stop Chilean dumping**
- **Sue the processors**
- **More money for ASMI**
- **Don’t fix it because it’s not broke!**
Why hasn’t the salmon strategy debate led to meaningful action?

• The level of pain and the challenges differ widely between fisheries—making it difficult to agree on what the problem is that needs to be fixed.
• There is a huge lack of trust, understanding and communication between fishermen and processors.
• The nature of the challenges facing the fisheries are complex and not well understood by most participants in the industry or political leaders.
• Within the industry people have different visions about what kind of industry they want.
• We have been limited in our thinking about potential strategies. We have not been thinking in terms of the fundamental changes that are really needed.
• There has been a lack of leadership by the state’s political leaders, in part because the issues are divisive and controversial.
Part of the reason there hasn’t been meaningful action is that making the salmon industry profitable isn’t in anyone’s job description.

- ADF&G’s mission is to protect and sustain the resource.
- The Commercial Fisheries Entry Commission administers Limited Entry system—it doesn’t set policy.
- The Division of Community and Economic Development and other agencies have no authority over salmon management
- ASMI’s mission is mostly limited to generic marketing
- The Board of Fisheries has its plate full with resource protection and allocation issues and has uncertain authority to manage for economic goals
- The Legislature has ultimate responsibility for management—but the legislature has its plate full with other issues and most of the legislature doesn’t understand much about the salmon industry
Any effective strategy will involve change and pain.

- We have looked for strategies that don’t require us to change and that don’t cause economic pain or disruption.
- We have resisted strategies that would require us to change and that would cause economic pain and disruption.
- But change, economic pain and disruption will happen no matter what we do.
- The issue is how to build a more profitable industry that can compete successfully given changing world markets and changing resource conditions.
8. Thoughts on Potential Strategies
The most important strategies are our individual choices: the strategies we pursue as individuals and companies.

- No one will guarantee you a living in fishing, processing, or any other business.
- A strength and vitality of the American economy is that people keep trying new ideas. Some of those ideas work and new products, markets and entire industries are the result.
- Most of what will ultimately turn the salmon industry around will come from the ideas and initiative and risk-taking of private individuals and companies, rather than from government.
- Private enterprise will do better than government in finding profitable products, markets, and technologies.
- But private enterprise alone can’t solve the salmon crisis—because salmon is a public resource and the government controls how it is used.
Goals for the Alaska Salmon Industry

1. Protect and sustain the resource
2. A profitable industry
   • Profitable harvesting sector
   • Profitable processing sector
3. Social goals
   • Employment for Alaskans
   • Income for Alaskans
   • Sustaining fishery-dependent communities
   • Return to all Alaskans from a public resource
Potential Strategies for Increasing Value

- More and better marketing
- Higher quality
- More profitable products
Many people have argued that since the problem is low prices, the solution is to raise prices through more and better marketing.

More and better marketing makes sense.

But marketing alone will not solve the problem.
Investing in generic marketing makes sense.

- The Alaska Seafood Marketing Institute (ASMI) has done a good job given the constraints it operates under and the funding available to it.
- Generic marketing creates and maintains trade and consumer awareness of Alaska salmon and seafood.
- Our competitors do it—and spend a lot more money than we do.
- The salmon industry has taxed itself to support generic marketing.
- The federal government provides substantial assistance which depends on matching funding.
- ASMI plays a critical role in responding to “emergency” situations (the Exxon Valdez oil spill, seafood health scares, etc.)
- The State should provide more funding for ASMI.
- But marketing by ASMI can not solve the fundamental challenges facing the salmon industry.
Wild salmon has *potential* marketing advantages of taste, health, and wildness. But these have limits . . .

- Not all consumers necessarily perceive wild salmon as inherently superior to farmed salmon.
- People tend to like what they are used to. Unlike salmon fishermen, most salmon consumers are not used to wild salmon.
- Not all consumers are interested in health or wildness. Look at the kinds of foods most people eat.
- Many consumers don’t know anything about differences between wild and farmed salmon. It may require a significant marketing effort to get them to know or care about these differences.
- Wild salmon has some marketing disadvantages, such as consumer perceptions that salmon are “endangered.”
Wild salmon has potential marketing advantages of taste, health, and wildness. But these have limits . . .

- Even consumers who know about and prefer wild salmon to farmed salmon won’t necessarily buy wild salmon unless they can get it in a competitive price.
- Consumers won’t prefer wild salmon to farmed salmon unless it is handled well.
  - Wild salmon leave the water as a better product than farmed salmon, but whether it is a better product when it reaches the consumer depends on how it is handled at every step from when it leaves the water till it reaches the consumer.
Generic marketing of Alaska salmon is hampered by inconsistent quality

- The quality of Alaska salmon has improved
- But quality remains inconsistent
- Generic marketing won’t succeed unless our product is as good as we claim it is.
Historically the Alaska salmon industry has focused more on production than careful handling.

Photograph by Bart Eaton
Better and more consistent quality would mean higher value. But how do we get higher quality?

- Talking about the importance of quality hasn’t worked.
- Voluntary quality standards won’t result in uniform high quality.
- Mandatory quality standards are expensive and may be impractical.
- Better quality doesn’t always pay for itself.
- Mandatory grading standards are a potential option that wouldn’t force quality standards on anyone—but could help buyers know what they are getting.
Current gear types and management limit the potential quality of Alaska salmon.

- If we really want better quality, why aren’t we talking about slowing down our fisheries?
- If we really want better quality, why aren’t we talking about catching fish live?
- If we really want to compete with farmed salmon, shouldn’t we be working on getting our fish to the processing plant in the same perfect conditions as salmon farmers get their fish to the processing plant.
Why not produce more profitable products?

• More profitable products would be in everyone’s interest.
• But it’s not obvious what the more profitable products are.
• Adding value adds costs too. Adding value doesn’t necessarily add profits.
• New products cost a lot of money to develop and to introduce to the market place.
• There’s a lot of risk in developing new products when you can’t be sure there will be fish or that you will be able to buy them.
• A lot of processors have tried a lot of new products and none of them have really taken off.
  – Remember Tyson, which was going to bring value-added processing to Alaska salmon?
• Whatever products we make salmon farmers can make too.
• I hope new products take off and save the salmon industry. But I would be cautious about government telling processors what they should produce.
9. The Real Problem is the Current Management System
The current management system . . .

• The current management system is not designed for a competitive and cost-efficient industry but rather to achieve social and political goals of spreading the wealth of the salmon fishery—of maximizing jobs and incomes for Alaskans.

• Almost all of the regulations in the Alaska commercial salmon fishery—the ban on fish traps, restrictions on gear types, boat size limits, the limited entry system, restrictions on participation in multiple fisheries, and many others—are designed to achieve social and political purposes and are not essential for protecting and sustaining our salmon resources.
The current management system . . .

• Serves an important social purpose. It spreads the wealth from the salmon industry among thousands of different individuals. Many of the “costs” that it creates to the industry are “benefits” to the participants.

• The system worked well as long as there was enough money to be spread around. Lots of fishermen made lots of money doing what they liked to do.

• But the world is changing, and the system isn’t working well any more.

• The current system has brought us where we are today.
The real problem is the current management system:

- The government micro-manages our industry:
  - The government decides how many boats can fish.
  - The government decides how they fish.
  - The government creates conditions in which fishermen have no choice but to race for fish.
- The government is extremely slow to make any changes, even when economic conditions scream for change.
- “The government” is us. The legislature, the Board of Fisheries, ADF&G, and other agencies—are not dictating to us. The system and the regulations are what industry has asked for. But the effect is that the most important decisions about fishing are made through a complicated, expensive and unwieldy collective process utilizing government, rather than through individual decisions.
The current management system creates conditions that are idiotic from any objective point of view about how to run an industry.

Photograph by Bart Eaton
The current management system . . .

- Provides no way for individuals who are creative to try new ideas for how to catch fish.
- Adds political uncertainty to the inherent natural uncertainty of salmon fisheries—discouraging long-term investment in harvesting, processing and marketing.
- Locks us into fishing exactly the same way every year—with the same number of boats—even though runs vary hugely from year to year.
- Locks us into fishing almost exactly the same way we did 30 years ago with almost exactly the same kinds of boats and gear we used 30 years ago . . .
- While the rest of the world’s salmon industry and the entire global economy is engaged in continuous change in an effort to lower costs, improve quality, and better meet the needs of changing markets.
10. Allocation-Based Management
The best option for cutting costs and increasing value is to change the management system

• This is the only option if we want a dynamic, competitive and profitable Alaska salmon industry.
• But this is the hardest option:
  – It involves the most radical and painful change—including changing how we think about what we do and what we want from our fisheries
  – It is the hardest option to get fishermen to agree to
  – It would require the most political effort
To survive and prosper, we need a management system that:

- Allows for continuous change and adaptation to changing natural and economic conditions
- Allows for continuous adaptation and innovation using new technologies
- Creates internal incentives for producing fish at the lowest possible cost, and to keep searching for ways to reduce costs
- Creates internal incentives for producing fish of the highest possible quality, and to keep searching for ways to improve quality.
- Facilitates coordination of harvesting, processing and marketing
We could create those conditions by allowing for allocation-based management of salmon:

- Groups or individuals would have designated allocations or shares of the harvest for a given area during a given period of time.
- Fisheries managers would focus on achieving escapement goals and allowing allocation holders to catch their allocations.
- Allocation holders would be given as much flexibility as possible in how they harvest their allocations.
With allocation-based management . . .

• Fishermen would no longer be racing each other for fish.
• Without a race for fish, government would not need to micromanage how fish are harvested to make the race for fish fair.
• Fishermen could have far greater flexibility in how they harvest fish
  – They could harvest fish in ways that lower costs
  – They could harvest fish in ways that raise quality
  – They could integrate fish harvesting with fish processing and marketing
  – There could continuously change and innovate
With allocation-based management . . .

- Managers could continue to protect the resource by meeting escapement goals
- Harvesters could work with managers to find more effective ways to meet escapement goals
- Harvesters could use their imagination and ingenuity to harvest fish in ways that reduce costs and raise quality
But do we really want to allocate our salmon to groups or individuals?

- We already do allocate our salmon.
- We already exclusively allocate our commercial salmon harvests to limited entry permit holders in each area.
- The only difference would be that we would decide beforehand who would get to catch what shares—rather than racing for the fish.
What kind of allocations would there be?

- The kinds of allocations that are feasible would depend on the conditions in individual fisheries. They might include:
  - Sole allocations for a given geographic area
  - Shares of the harvest for a given geographic area
    - Shares allocated to groups of harvesters
    - Shares allocated to individual harvesters
Who would get the allocations?

• That’s the big question!
• As a matter of fairness, I strongly believe any allocations should go initially to current limited entry permit holders, either as groups or as individuals
  – But how to allocate would still be highly contentious
• Over time, we might wish to gradually change how we allocate.
With allocation-based management . . .

- Allocation-holders could continue to fish with the same boats and gear.
- Or they could fish fewer boats using the same gear.
- Or they could vary the amount of boats and gear they were fishing—using less gear if the run was weak—but (unlike the current system) without having to worry that someone else would catch the fish.
- Or they could invent and use new kinds of fishing gear
- Or they could use fish traps
But we banned fish traps!

AS 16.10.070. Operation of Fish Traps.

Fish traps, including but not limited to floating, pile-driven, or hand-driven fish traps, may not be operated in the state on or over state land, tideland, submerged land, or water. This section does not prevent the operation of small hand-driven fish traps of the type ordinarily used on rivers of the state that are otherwise legally operated in or above the mouth of a stream or river.
Maybe it’s time to ask what’s wrong with fish traps.

• In some fisheries, they can be extremely cost-effective
• They can allow exact achievement of escapement goals
• They can reduce bycatch to zero
• They can catch fish live, allowing for:
  – Much higher quality
  – More efficient use of processing facilities
Our biggest wild salmon competitors—the Russians—use fish traps.

This painting is from a mural of Russian fishing gear types at the Fisheries Technical University in Vladivostok.
Am I saying fish traps are the answer?

• No. Fish traps may or may not be a better way to catch fish in some fisheries.
• I’d advocating allowing fishermen *greater flexibility* in how they catch fish—to take advantage of opportunities to reduce costs or improve quality.
• I don’t see why it matters if fishermen catch salmon with a seine or a gillnet or a trap, as long as they are catching only their allocation and we are meeting our escapement goals.
With allocation based management . . .

- Harvesters could make long-term contracts with processors, allowing harvesters to secure long-term markets and processors to secure long-term supplies.
- Harvesters could contract pre-season with processors to match delivery standards and timing to processing needs.
- Harvesters could vertically integrate with processors.
Allocation-based management raises numerous complex and highly contentious issues

• How do you guarantee escapement?
• How do you address potential effects on communities?
• How do you keep the allocations in the hands of Alaskans and local residents?
Is allocation-based management constitutional?

- I don’t know. Whether it is is a critical issue.
- The Alaska constitution states that “fisheries are . . . reserved to the people for their common use.”
- But we’ve already allocated our commercial salmon to limited entry permit holders.
- I personally believe that the best way to ensure benefit to all Alaskans from the our common commercial salmon resources is to have a profitable industry which pays royalties or taxes to the state from part of its profits.
11. How do we get there from here?
We need a structured, long-term process to plan for restructuring and revitalization of the Alaska salmon industry.

The process should provide a clear road map for how salmon industry participants can bring about change.

The goal of the process should be a package of legislation to provide for restructuring and revitalization of the Alaska salmon industry.
The process should provide for active input and participation from all affected groups.

- Fishermen
- Processors
- Hatcheries
- Communities
- Managers
- Legislators
- Governor
- Board of Fish

If it doesn’t, there won’t be buy-in to the final result and it may not lead anywhere in the end.
• The process will take time—a year or more.
• The process will require commitment from participants to make it work.
• The process will require extensive public input.
• The process will require research about legal, economic, and social issues.
• The process will require good management, staffing, and funding.
• The state government must provide leadership for this process. Only the state can change salmon management.
Potential Starting Principles for Restructuring

• We should seek a menu of different options for restructuring that different areas can choose from
  – We should not seek one-size-fits-all solutions for all areas.
  – We can learn from experimenting with different approaches in different fisheries
• Proposed restructuring for an area should be subject to a vote of permit holders in that area
• Initially:
  – If restructuring involves allocations, the allocations should go to current permit holders. (I’m not taking sides on whether the allocations should or shouldn’t be based on past catches—I think arguments could be made for either position.)
  – We should protect areas from “sideboard” effects of restructuring in other areas
  – We should not impose new taxes on the industry
• Over time, we may wish to allow for:
  – Changes in allocation
  – Reduction in “sideboard” regulations
  – New taxes as the industry becomes more profitable