

**Testimony of Ralph G. Hoard
EVP, Icicle Seafoods, Inc.**

before the

**Subcommittee on Fisheries Conservation,
Wildlife and Oceans Committee on Resources
United States House of Representatives
Hearing on Individual Fishing Quotas**

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Executive Vice President
Icicle Seafoods, Inc.**

My name is Ralph Hoard and I am the Executive Vice President of Icicle Seafoods, Inc., an Alaska corporation, headquartered in Seattle, Washington. Thank you for the opportunity to testify regarding the Individual Fishing Quota moratorium and Magnuson Act Re-authorization.

Icicle Seafoods is an Alaska corporation founded in 1965. We started with a single salmon cannery in Petersburg, Alaska and have expanded over the years with multiple locations throughout Alaska that process salmon, crab, herring, halibut, sablefish, cod and pollock. We have processing operations throughout Alaska, including Petersburg, Seward, Beaver Inlet, Bristol Bay, Dutch Harbor, St. Paul and Adak. In addition to Alaska, we have two processing plants in the State of Washington and jointly own a canned salmon labeling warehouse in Astoria, Oregon. Although we do own a small number of catcher vessels, of the 230,000,000 pounds plus of fish we purchased and processed in 2001, over 87% of the ex-vessel value was purchased from independent fishermen throughout Alaska.

I would like to preface my comments by stating that we are not opposed to rationalization. There are certainly many compelling reasons why various fisheries could be rationalized. Quota based fisheries can provide many benefits to any particular fishery, however those benefits should be enjoyed by all participants in the fishery including fishermen, processors and those communities dependent on the particular fishery. The most common justification to rationalize any fishery is a result of overcapitalization. It is impossible to have an overcapitalized fishing fleet unless the processing sector overcapitalized with the fishing fleet in that particular fishery. It is very unlikely, especially in remote parts of Alaska, that the processing sector was able to overcapitalized without community investment in ports, docks, harbors and infrastructure. In other words, everyone got to the same place totally dependent on each other. If the fishery is to be rationalized whether it is with IFQs, cooperatives or any other method, the benefits of the rationalization should be enjoyed by everyone that has a vested stake in the fishery.

In Alaska, we do have an IFQ program for halibut and sablefish in place that has completed its 7th year. While my comments today are on why that program is not working for the processing sector and why any new programs should not be similar to the existing halibut/sablefish IFQ program, I am not suggesting that it should be revisited. In fact, too much quota and money has already changed hands to reasonably try to change that program now. However, I hope my comments will help avoid making the same mistakes when future programs are contemplated. In order to give you a clear picture of the current halibut/sablefish IFQ

program, it is appropriate to give a brief history of the fishery and how we got to where we are today. Although the program was instituted for both halibut and sablefish, the development of each fishery was different.

THE HALIBUT FISHERY

The halibut fishery, as recently as the mid 1970's, was a long, drawn out fishery that was mostly fished, in Alaska, by both American and Canadian fishermen. Those fishermen basically fished throughout the spring, summer, and early fall. They had an informal system where for every day they fished they would lay-up for half a day to help spread the season out. In other words, if they made a 14-day trip, they would tie up for 7 days. In those days our company was the major buyer of halibut in Alaska, some years purchasing almost 50% of the catch. The first expansion of our company from Petersburg was purchasing the Seward plant in order to provide a market in the Gulf of Alaska for our fishermen to the south that were having trouble selling fish. In a few short years after a major expansion of freezers, ice making capacity, docks and cold storage, our Seward plant became the largest single facility halibut buyer in the world.

[A side note here: From 1975 to 1978, I was the plant manager of this facility where it was not uncommon for the fleet to deliver their catch simultaneously within a 3 to 4 day period. Many times we would wake up in the morning to find 3 to 4 million pounds of halibut waiting to be delivered by both USA and Canadian vessels. To accommodate this volume we added: freezers, cold storage capacity, processing lines, dock hoists, ice making, mess halls, bunkhouses, van service for fishermen to Anchorage, etc. As a result, the Seward plant was very efficient and continued to attract boats because they not only knew their catches would get unloaded quickly, but that all the other amenities like: bait, ice, supplies, fuel, mechanical help, spare parts coordination, etc., crucial to their ability to catch fish were not only available, but in a quality way. This capability to quickly unload one's catch, close to the fishing grounds which Seward was, and get back fishing as soon as possible helped our fleet's catch records, which became the basis to establish their quota share in the current IFQ program.]

With the rapid expansion of the small boat salmon fleets throughout Alaska many new smaller local Alaskan fishermen began to fish halibut. Also, in 1980 the Canadian fleet was eliminated from USA waters and the halibut seasons became increasingly shorter. In order to accommodate this growing number of fishermen, we continued to expand our capacity including purchasing a plant in Homer, Alaska, and building a larger freezer and cold storage facility there. Eventually the seasons were measured in a few short 24- or 48-hour openings. We were still the largest buyer of halibut during this period as millions of pounds of fish had to be handled in a few short days. Since we grew with the fleet, we maintained our market share. During the last few years of the pre-IFQ fishery, we were even supplying our fishing fleets with large pick up vessels so they could fish in some of the remote areas of Alaska. This allowed small vessels to harvest fish in the best areas that otherwise would not have been available to them.

THE SABLEFISH FISHERY

The sablefish fishery had a totally different history, but ended up in the same situation. Back in the mid 1970's, Icicle was purchasing 70%-80% of the U.S. caught Alaskan sablefish. Although this was a very high percentage, the vast majority of the sablefish harvested in Alaska during this period was still being caught and processed by foreign fishing fleets. This was a very trying and difficult time for both our fishermen and our company as it was difficult to get a reasonable price for our product since it was primarily a Japanese market and they were securing most of their product needs from their directed fishing efforts in Alaska. (I might also add that during this period there was virtually no market in Japan for halibut, as their directed

fleets also filled this void with by-catch from the sablefish fishery.) In the early 1980's, Icicle Seafoods and other companies, along with fishermen, petitioned the North Pacific Fishery Management Council (NPFMC) to eliminate the directed foreign fishing in order to allow U.S. fishermen and processors to access 100% of this fishery. Although most fishermen were supportive of this effort, there were some that proposed to let the U.S. fishermen harvest the fish, but sell directly to foreign factory ships. Their concern was that the Alaskan processing sector did not have the intent to buy, the capacity to process, and the access to the market that the foreign companies had. During years of debate, the NPFMC prodded the U.S processing side to develop the capacity to process, and the necessary infrastructure needed for 100% U.S. utilization. In 1984, the NPFMC told fishermen and processors that they would give them until September of that year to catch and process the quota or it would revert to the foreign fleets as it had been for decades. That year, 100% of the fish was caught by USA fishermen, purchased, processed and sold by USA processors who spent substantial sums of money to gear up their plants to meet the imposed deadline. Market prices increased dramatically, providing a new, profitable and viable fishery for both fishermen and Alaskan processors.

Once Americanized like halibut, many new participants in both the fishing and processing side entered the fishery. Seasons that once lasted 3 or 4 months began to last only 2 or 3 weeks. Again, the capacity and philosophy to serve fishermen we initiated to prosecute these fisheries worked well. In addition to our strategically located shore plants in the Gulf of Alaska, we invested in processing equipment and ice-making capacity on our floating processors which we located in remote parts of Alaska, providing markets for our fishermen and accessing fish that both of us otherwise would not have had access to. As new Alaskan fishermen entered the fishery and as seasons became shorter, we continued to work to make both ourselves and those fishermen working with us more efficient. We modified our operation and began to allow fishermen to deliver whole fish, in refrigerated seawater. This allowed fishermen, who once had to dress all the sablefish on the vessel, to become more efficient in their fishing operation as we took over the duties of dressing their product. A lot of the traditional vessels continued to dress fish, but delivering round, refrigerated fish became more common. Again, this allowed our fishermen to build more catching history that eventually became their IFQ basis.

CURRENT HALIBUT/SABLEFISH PROGRAM

Although not quite on similar courses, both the halibut and sablefish fisheries got into the same overcapitalized situation, which resulted in the current IFQ program we have today. Once the IFQ program was put in place, 100% of the efficiencies, economies of scale, and added value of the fishery was given to the harvesting sector. All of our investment, that not only allowed us to maintain but even grow our business, became irrelevant and was immediately devalued. Fishermen, once awarded IFQs on the other hand, were immediately able to consolidate and spread their fishing over eight months. Those that wanted out, sold. Those that wanted more, bought. It was and is still today a happy story for those fishermen that were awarded IFQs, whether they still fish or left the fishery. Today the quality of fish being delivered is far superior to the pre-IFQ fishery. The added value of the catch in the market is a lot higher. Unfortunately, 100% of that value has gone to the harvesting sector. The processing sector, by being left out of the rationalization process, was left with assets that are no longer needed. The choice for the processing sector was very clear, either continue to try to survive with assets that are not conducive to a controlled IFQ fishery, or exit. That is exactly what has happened. Although we have been able to survive only because we were diversified in other fisheries and other areas, our business in the locations that were dependent on the halibut and sablefish has deteriorated. This is not only a problem for us, but it's a problem for the fishermen

that fish other fisheries in those areas. Their fisheries now have to carry 100% of the burden on assets that were once getting reasonable contribution from halibut and sablefish. Our gross profit margin on halibut and sablefish during the first 6 years of the IFQ program is \$20,000,000 less than it was the 6 years previous to the IFQ program. Not only are we feeling the pain, but every non-IFQ fisherman that delivers other product to these facilities now has to carry a bigger burden of the costs and overhead of these facilities.

As tough as it has been, we are one of the fortunate processors as we have been able to survive. Many took the second option, which was to just quit with no compensation for their investments. Some will say that's just too bad, but when they left they also left many non-IFQ fishermen without markets and many communities without a viable processing sector. Many in Alaska feel that one of our biggest challenges is dealing with our salmon business with the worldwide competition of farmed fish. That very well could be the case, but as one of the largest salmon processors in Alaska, I can assure you our biggest challenge has been adapting to the realities of the halibut/sablefish IFQs and the economic affect that has had on our salmon business. Not only is our salmon industry (fishermen, processors and dependent communities) fighting the challenges of the world farmed fish explosion, but we are having to jointly foot the bill for the lost opportunities in the halibut and sablefish business.

Although there are some communities that have benefited from the IFQ program because of their close proximity to good air freight service to access the fresh halibut market, there are just as many communities that also lost out and no longer have a viable seafood industry resulting in economic hardships to not only the community but the other non-IFQ fishermen that try to operate out of those communities.

It is too late and not practical to change the existing halibut/sablefish program; however, we need to learn from it and make sure that any future programs allow all the stakeholders (fishermen, processors and dependent communities) to enjoy the benefits of a rationalized fishery. The benefits should be enjoyed by all and not come at the expense of some. [The State of Alaska has just released a study that examines, "The North Pacific Halibut and Sablefish IFQ Policy Impacts on Processors", that this Committee may find relevant to these deliberations.]

RATIONALIZATION BENEFITS TO THE QUOTA HOLDERS

Rationalization of overcapitalized fisheries provides benefits to the participants who receive IFQs and to the nation. Many fisheries in Alaska are overcapitalized, resulting in efficiency losses to the industry. In those fisheries, too many boats are chasing the fish, excess processing facilities are being operated, and communities have invested in more infrastructure than is needed. Most fisheries in Alaska are open access fisheries, with a race for fish being the primary factor in determining the structure of and investment in the industry. In an open access fishery, more and more boats are added to the fleet in a hunt for profits, resulting in shorter seasons. When the influx of new boats stops, the fleet will upgrade engines for more power, use larger nets or set more pots and longlines, and increase their hold capacity as they catch and land fish more quickly.

In the processing sector, more facilities are needed to process the fish as the catch is landed more quickly and in a shorter period of time. Processors upgrade their facilities with more processing lines, increased freezing capacity, and larger cold storages.

Finally, communities and support industries upgrade the infrastructure which supports the fishing industry, building more dock space, providing more housing, and increasing the capacity of utilities such as water, electricity, and sewage disposal.

The result is a fishing industry that can catch, process, and distribute the fish and fish products in a shorter period of time, leaving all of the capital facilities idle for many months. For the fishermen in the halibut and sablefish fisheries in Alaska, rationalization through the IFQ system provided each quota holder with a broad range of economic options: (1) a marginal fisherman, or one that wanted to retire, could decide to sell his quota to obtain a return on his investment and exit the fishery; (2) a fisherman who owned multiple boats could consolidate his quota onto a smaller number of boats and increase his efficiency, resulting in increased economic return; (3) a fisherman could use his quota to operate while avoiding bad weather, to catch fish in response to market demand, and to operate his boat at the highest level of efficiency (crew size, fishing grounds choices, fuel utilization, etc.); or, (4) a fisherman could expand his catch total by purchasing more quota shares and leveraging the cost with what he received initially for nothing.

Rationalization of an overcapitalized fishery provides increased economic value to the quota holders above the economic return from the open access fishery. The nation benefits from the productivity gains of the fishing side and from products with higher quality and greater variety.

BENEFITS OF PROCESSOR RATIONALIZATION

An ITQ system with all the value going to the fishermen provides no benefits to the processors that supported those harvesters in the open access fishery. The processors receive none of the additional economic value resulting from rationalization of the harvesting sector, and will lose their capital investment in the excess facilities that were needed to support the open access fishery. Processors will have only negative options available: (1) retire from the fishery and write off the capital investment; or (2) continue to operate at a lower level of facility utilization and smaller margins.

Rationalization of the processing sector through processor quotas, processor-harvester cooperatives, or some other system will give to the processors the same broad set of economic options available to the rationalized harvesters: (1) a marginal processor could decide to retire from the fishery, sell his quota to another processor or fishermen that want to process, and obtain some return on his capital investment; (2) a processor could consolidate facilities to make more efficient use of his equipment while cutting costs; (3) a processor can continue to operate, but with greater efficiency through decreased costs resulting from longer seasons and more predictable supply of fish; and, (4) a processor could slow down production and process more value added products once the delivery time and quantity of fish was a known entity to coordinate with the proper markets. Rationalization of the processing sector does not change the economic options for the fishermen. They can still exit the fishery, consolidate on fewer boats, or operate with better efficiency and safety. The only difference resulting from rationalizing both the harvesting and processing sectors is that the additional economic value from the fishery will be shared by the two sectors. The processing sector in Alaska has made significant investments in each fishery, as has the harvesting sector. Both sectors should receive benefits from those investments when a fishery is rationalized.

In conclusion, I encourage you to continue to work on legislation that will provide the additional economic benefits from rationalization of overcapitalized fisheries while ensuring that the opportunity to share in that additional economic value is available to processors as well as harvesters. Unless future rationalization programs provide equal benefits to all sectors, we would prefer the status quo.

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