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STATE OF ALASKA DEPARTMENT OF COMMERCE
COMMUNITY AND ECONOMIC DEVELOPMENT
PUBLIC HEARING
Anchorage, Alaska

In Re:)
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2006 - 2008 Community)
Development Plan -- APICDA)
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TRANSCRIPT OF PROCEEDINGS
ALEUTIAN PRIBILOF ISLAND COMMUNITY DEVELOPMENT ASSOCIATION
Anchorage, Alaska
Legislative Information
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1 P R O C E E D I N G S
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2 (On record)
3 MR. CASHEN: Good morning. We're on the
4 record. The Commissioner -- Commissioner Blatchford is going
5 to be about five minutes, so I just wanted to inform on the
6 record that he will be here shortly, so we're going to wait
7 for him. We should start in about five minutes. Okay. Thank
8 you.
9 (Off record)
10 (On record)

11 MR. DAVIS: We're on the record on Wednesday
12 morning. This is Mr. Davis, Director of Banking, Securities
13 and Corporations. Earl Krygier, the member representing the
14 Alaska Department of Fish and Game is on his way, but he
15 hasn't reached here. We've had a request from APICDA through
16 Mr. Kyle, to proceed without him. And given that request,
17 we'll accede to that request and let the meeting proceed. Go
18 ahead, Mr. Cotter.

19 MS. SHELLIKOFF: Good morning. My name is
20 Gilda Shellikoff. My last name is spelled, S-h-e-l-l-i-
21 k-o-f-f. I'm the chair of the Board of Directors of APICDA
22 and a resident of False Pass.

23 With me this morning are two board members, who, along
24 with me, constitute the membership of APICDA's Executive
25 Committee. Ms. Justine Gundersen from Nelson Lagoon, and Mr.
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1 Arnold Dushkin from Nikolski. For the record, Justine also
2 serves as the Chair of the Board of Directors for APICDA Joint
3 Ventures. The three of us represent over 30 years of service
4 on the APICDA and AJV Board's of Directors.

5 Our management team is represented this morning by Mr.
6 Larry Cotter and Mr. Joe Kyle, our CEO and COO/CFO. Mr. John
7 Moller, our General Manager, Mr. Rob Smith, our Controller,
8 and Ms. Laura Gilman, our Director of Human Resources. Larry,
9 Joe, John and Rob represent over 44 years of service to
10 APICDA.

11 We believe the professional qualifications, proven
12 abilities, and the overall depth and breadth of experience
13 within our management team is a particular strength of the
14 APICDA organization. Their strengths, combined with the
15 stability and expertise of our various boards of directors
16 ensure that APICDA is well-managed, operated and focused on
17 the statutory purposes of the CDQ program.

18 While we have been fortunate to have a very small
19 turnover in key board and management position, we have also
20 been a very dynamic organization. We have responded
21 positively to program changes under three different
22 administrations. We absorbed an 11 percent reduction, from 18
23 percent to 16 percent in our pollock allocation in 1994, which
24 was not performance-related.

25 We absorbed an additional 12.5 percent reduction in
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1 our pollock allocation in the year 2000, which was not
2 performance-related. Our "in region" investment program,
3 which does not generate the same economic returns as outside
4 investments, was frowned upon by the previous administration
5 and this resulted in a state-mandated comprehensive management
6 review of our entire program over the past allocation cycle.

7 While we believed we were unfairly singled out by the
8 previous administration, we embraced the management review. It
9 found that we were well managed and operated, and disputed the
10 state's fundamental rationale for ordering it. The findings
11 were reported to the state, NMFS, and North Pacific Fishery
12 Management Council.

13 We have worked diligently over the past three years to
14 incorporate the process and organizational changes suggested
15 in the review to strengthen our organization. Our senior

16 management team continues to work with the firm that conducted
17 the review to ensure that we remain a very dynamic,
18 professionally managed organization.

19 I am extremely proud of our record of achievement, our
20 fidelity to the purposes of the program, our business
21 partnerships and investments, and our relationships with state
22 and federal regulatory agencies. I have focused my comments
23 on what I see as the strengths of APICDA and even our
24 resilience under some trying times, but I would be remiss if I
25 did not take this opportunity to thank the state for the

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1 selfless and dedicated work the CDQ Team performs so we can
2 put the program to work in our communities. We know that you
3 are very faithful to your tasks as state employees, but also
4 that you are very personally involved and concerned that this
5 program work for the benefit of our communities. Please
6 accept my gratitude for your services to the CDQ program.

7 I will now turn our presentation over to Larry Cotter,
8 thank you for your attention.

9 MR. COTTER: Good morning members of the CDQ
10 Team. My name is Larry Cotter, C-o-t-t-e-r. The way we've
11 tried to lay out our presentation this morning is that the
12 first several sections will deal with what we have
13 accomplished and then the next sections will deal with what we
14 hope to accomplish and plan to. And I'll try and go through
15 some of this stuff very quickly and just hit the high points.

16 Since the inception of APICDA we have followed
17 essentially the same perspective and the same course of
18 action. And that perspective is that we have the unique
19 opportunity, with the exception of CBSFA, among all the CDQ
20 groups to be located immediately proximate to the fishery
21 resources in the Bering Sea and the Aleutian Islands. That
22 provides us with the opportunity to develop stable local
23 economies in each of our member communities, based upon the
24 fishing industry. And our approach to accomplishing that task
25 was first, to build infrastructure in the communities.

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1 Infrastructure to serve as the foundation upon we can begin to
2 grow business opportunities and the accompanying economies,
3 jobs and employment that result.

4 So, in terms of infrastructure, we started off in 1993
5 with dredging contributing funds to dredge the harbor in St.
6 George. We constructed a new sub-port facility on St. George.
7 We also put a new outfall in St. George.

8 In Nelson Lagoon we contributed funds to construct the
9 dock, and at the same time we purchased six acres of land and
10 prepped for those acres.

11 In False Pass, we constructed a gear storage
12 warehouse, and then we have either provided funds or lobbied
13 to secure funds in Washington D.C. for improvements to the
14 airport and runway in False Pass.

15 MR. BLATCHFORD: Just let the record reflect
16 that we are now -- the team is fully staffed.

17 MR. DAVIS: Yes, the representative for the
18 Department of Fish and Game has arrived.

19 MR. KRYGIER: They sent me -- I was over here
20 this morning on the second floor and they sent me to the other

21 building.

22 MR. BLATCHFORD: We blame Simon for -- of
23 Norton Sound for sending you there. (Laughter)

24 MR. CASHEN: Okay. Earl, we just started.

25 MR. KRYGIER: Sorry.

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1 MR. COTTER: We have extended water and
2 electric services to the city dock in False Pass. Constructed
3 a small boat mooring basin in Akutan. In Atka we've done a
4 small dock and floating barge. We -- using our in-house team,
5 we developed a method to capture water and take and deliver
6 water to the dock facility in Atka, which we partially funded.

7 We're partially funding construction of a new hydro-
8 electric facility in Atka, which will obviously benefit the
9 community, but also reduce electric rates to our Atka Pride
10 Seafoods. We've done a vessel haul-out in Nikolski. As you
11 may know, Nikolski is very difficult to get to and we secured
12 federal funds to install aircraft navigational aids in
13 Nikolski.

14 Business development. We've formed a variety of
15 businesses in our communities, Puffin Seafoods in St. George.
16 Here we say, construction of a shoreside processing facility
17 on St. George Island. That, we had hoped to do in 2005, but
18 as you may know, the October storm caused severe damage to the
19 harbor in St. George. President Bush is now amended his
20 earlier Disaster Declaration to include St. George in the
21 October storm disaster. FEMA will be going out to St. George
22 in January. We don't believe that the harbor will be -- will
23 be fixed this summer, and so we're going to have to delay
24 construction of the processing facility until 2006. Because
25 if the harbor doesn't get fixed, it makes no sense for us to

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1 put a plant there.

2 We formed a storage company in Nelson Lagoon. Bering
3 Pacific Seafoods in False Pass, Atka Pride Seafoods in Atka.
4 We also have the Nazan Bay Inn in Atka. We constructed the
5 Ugludax Lodge in Nikolski. We formed a company called
6 OceanLogic, purchased 25 percent of Cannon Fish Company, which
7 is a Seattle company that specializes in purchasing and
8 selling and distributing a variety of fish from Alaska and
9 around the world in a variety of products up and down the West
10 Coast. And that's part of our program to begin to vertically
11 integrate APICDA from the harvesting side to the retail side.

12 We purchased five 35-foot longline vessels and three
13 medium size vessels less than 60 feet. These constitute our
14 small boat fleet that John Moller will talk about in a few
15 minutes. We have equity investments in five large Bering Sea
16 vessels. And we have one commercial sport charter vessel that
17 operates in conjunction with the Ugludax Lodge in Nilkoski.

18 We have also purchased a significant amount of IFQ's.
19 In terms of sablefish, APICDA Joint Ventures is essentially
20 maxxed out on sablefish. Most of those shares are in the
21 Aleutian Islands and Bering Sea where we hope to start using
22 those products to run through our plans. We also have halibut
23 IFQ's. We have licenses. And perhaps more importantly, we've
24 also loaned or guaranteed loans to local residents to purchase
25 over 164,000 pounds of halibut and sablefish IFQ's at a cost

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1 of nearly \$900,000.

2 And lastly, we have funded the long-term reserve
3 account, which Joe will talk about in a little while. So,
4 what our program is focused on is the development of a stable
5 local economy in each of our member communities. That's been
6 our focus first and foremost and will continue to be our
7 focus. And of course, one of the benefits that result from
8 that is the training and education and employment
9 opportunities that result. And to address that will be our
10 Human Resource's Director, Laura Gilman.

11 MS. GILMAN: Good morning, my name is Laurie
12 Gilman, G-i-l-m-a-n. I grew up in Unalaska and graduated from
13 Unalaska High School in 1996. My parents and brother live in
14 Unalaska operating their small family-owned business supplying
15 propane to the community and to the fish processors there in
16 Unalaska and to nearby villages.

17 I was a recipient of APICDA's Higher Education
18 Scholarship Program for four years to earn my Bachelor's
19 degree, and two year's for my Master's degree in
20 organizational psychology. My first job after graduation was
21 with APICDA in their Human Resources Department. After my
22 initial service, I was promoted to Human Resources Director
23 where I coordinate the training and education programs. These
24 programs include the Higher Education and Supplemental
25 Education Scholarship Programs, the Student Internship Program

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1 and the School Grant Program. I also coordinate regional
2 employment for APICDA and its subsidiaries and assist our
3 partner's in regional recruitment.

4 The table displayed, outlines our investment in human
5 resources within our region since 1993. Over the past 11
6 years APICDA has provided approximately 130 jobs per year to
7 local residents, generating over \$14 million in wages paid
8 directly to residents of APICDA communities. These positions
9 include jobs within APICDA, its subsidiaries and with our
10 partners.

11 A total of approximately \$1.5 million has been awarded
12 to our Scholarship and Internship Programs. APICDA has
13 awarded 364 Higher Education Scholarships and 350 Supplemental
14 Education Scholarships.

15 Currently, this year in 2004, we have 57 students
16 enrolled in our Higher Education Scholarship Program.
17 Students in this program receive \$5,000 per year per student.
18 Forty-seven students participated in our Supplemental
19 Education Scholarship Program this year. Students receive up
20 to \$3,000 per student per year in this program. Nine students
21 participated in our Internship Program this summer. Our
22 Internship Program assists students with employment
23 opportunities, wages and living costs for the duration of the
24 internship.

25 The APICDA School Grant Program has awarded \$329,000

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1 since 1995. A School Grant program awards \$6,000 per school
2 in each of our regions. The grants are used for fisheries-
3 related school projects.

4 The APICDA training and education programs continue to

5 grow each year and is a great investment to our region.

6 Thank you.

7 MR. COTTER: Thank you, Laura. And now we're
8 going to pass the baton to Joe to address various CFO and
9 corporate governance issues.

10 MR. KYLE: Mr. Commissioner, the first thing I
11 would just like to point out is that Gilda mentioned in her
12 opening remarks that we did have the management review over
13 this past allocation cycle, and that, you know, I try not to
14 be very timely for a number of reasons, one of which was, you
15 know, the stuff we've all heard about (indiscernible), you
16 know, with all the national attention focused on corporate
17 governance, so we were able to piggy-back a lot of that stuff
18 onto the management review and work hard to improve our
19 corporate governance structures.

20 In that light, we've always had an executive
21 committee, which Gilda introduced and are present in this room
22 and the executive committee, of course, meets on a monthly
23 basis and has for years with the management team to discuss
24 the progress of ongoing projects that we are involved in, as
25 well as any new things that are the horizon in terms of the

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1 political environment or the business environment.

2 During this past allocation cycle we're really
3 revitalized and reconstituted our budget and audit committee.
4 The budget and audit committee consists of three board members
5 that meet with myself and our controller at the end of every
6 quarter, really to take a very drilled down look at how our --
7 all of our companies are progressing on terms of performance
8 against budget. They then make recommendations to each of the
9 subsidiary LLC's as well as the full board of APICDA and/or
10 AJV as is appropriate for budget changes, highlighting
11 performance issues that they see, kind of acting as an early
12 warning system for, you know, the businesses as they progress
13 through the year if there is a problem.

14 Likewise, the finance and investment committee, again
15 that's three members of our board that meets bi-annually --
16 well, semi-annually I should say, with Rob Smith and myself,
17 our Controller. And that's to review the performance of our
18 portfolio manager, Smith-Barney, and then to review the sub-
19 set of our portfolio management, which Jim O'Connell and I
20 kind of head up with our little Harris Direct account, which
21 I'll address later.

22 Third thing of business, the Investment Committee, or
23 fourth thing. Larry, you know, is the principle staff for the
24 business investment committee. Again, that's three board
25 members that generally meet prior to every board meeting.

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1 Larry, having vetted new business venture ideas through our
2 management team, will then present the new business venture
3 ideas to the business investment committee, who will provide a
4 filtering process and refer those which they think have merit,
5 onto the full board for action.

6 Laura, who just presented the training and education
7 committee report, again, she's got a three board member
8 committee that she meets with on a timely basis, at least
9 twice a year, to review, you know, where we are with our

10 training and education program, how that's going.

11 We also have a policy and procedures committee that
12 meets at least twice a year, but that's to kind of review the
13 internal policies and procedures that we, as a management
14 team, have in place for our in-house employees as well as work
15 on board of director policy and procedures.

16 So, we're doing all those things, if you will, you
17 know, that we were kind of doing some of them. But the
18 management review and the national environment, with corporate
19 scandals and stuff, gave us the ability to really strengthen
20 those internal control systems that those committees help
21 insure and place.

22 Briefly now, I'll just let you know, again, we're
23 looking backwards in a way, but how we spend our royalties in
24 the community since the beginning of the CDQ program. There's
25 some consolidated numbers there, of course, and they are round
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1 numbers, but you know, the scholarship and internship program,
2 you know, the fishermen association grants has been a part of
3 our program from day one where we initially would provide
4 \$10,000 a year to every fisherman's association, so they could
5 use those monies for whatever purpose they deemed appropriate
6 to their association business. But we certainly want to
7 provide the opportunity for them to be able to come to council
8 meetings, IPAC meetings and get more involved in the fishery
9 management programs that really vitally affect their
10 communities. About midway through the life of the program, we
11 increase the donation to \$20,000 yearly to each fisherman's
12 association.

13 Miscellaneous grants program is kind of a catch-all,
14 we heard some about it at the council yesterday and maybe in
15 Annette Heinz's deliberation, but we used that money as, you
16 know, as any good corporate body should. You know, you get --
17 corporations are flooded with requests from the public and
18 private sector, really for grants, for help, for doing
19 something and we have to have the ability to respond as any
20 good corporation would and, you know, exercise kind of social
21 responsibility function. So, we will, you know, fairly small
22 amounts of money, but donate \$5,000 here or \$2,000 there, that
23 it's not strictly within the confines of the seafood industry,
24 but certainly in exercising our corporate citizenship
25 responsibilities we feel we need to do.

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1 School grants program, Laura already touched on.
2 Again, those are tied to the fishing industry, the projects
3 that the schools compete for those funds for -- it must be
4 related to the fishing industry.

5 The Community Conference, as you know, is our outreach
6 once a year annual event where we make a really strenuous
7 outreach effort to our community leaders to let them know what
8 we're doing, how they -- let them tell us how they think we're
9 doing and where they would like to see us go.

10 The direct infrastructure contributions. Larry
11 displayed some of those previously. Direct expenditures in
12 the region on infrastructure, that \$9 million is money that we
13 spent in region in furtherance in getting those infrastructure
14 projects in place. The total there, as you can see, is \$17.5

15 million, and that represents about 27 percent of the royalty
16 money that APICDA has received since the beginning of the
17 program. What's not there, of course, are some things like
18 wages and things like that, that are paid to the community.
19 You saw a previous slide that had that number pegged at 14
20 plus million, so really we're at \$31 to \$32 million of the
21 \$60.8 that we've accumulated over the years or that we've had
22 as a result of royalties having been directly plowed back into
23 the communities. And of course, the remainder would be
24 outside investments and administrative costs and things such
25 as that.

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1 The long term reserve account, as I mentioned, we've
2 got an account with Smith-Barney. Those are obviously round
3 numbers because as you know, the market makes them shift every
4 day. Approximately \$5.7 million in Smith-Barney. The
5 marching orders to Smith-Barney are to manage that money
6 conservatively. Historically we had -- we started with a
7 70/30 split, with 70 percent being in very very safe
8 investments, the bond side, and 30 percent in equities. Over
9 time we've tried to get more in line of how the permanent fund
10 is managed in that split. And as you can see it's kind of
11 flipped, it's a dynamic process though. On an annual basis we
12 meet with our broker and our portfolio management team and
13 discuss what's the right mix between equities and bonds and
14 we're pleased with that and doing well. It was originally to
15 be a \$5 million account in stock, but within the past year or
16 a year and a half ago, the board shifted it to a \$10 million
17 account.

18 You can see we've got 800 grand is a Harris Direct
19 account, which is really an on-line brokerage account. That
20 one is managed by myself and our financial consultant who is
21 Jim O'Connell, a former board member, and an ex-senior vice-
22 president of National Bank of Alaska. We run that account
23 really to -- we seed it with \$650,000 of money, we run that
24 account to really help us keep our hands in the market and the
25 financial markets and it's kind of a check on how our broker

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1 is doing. We do it really as a monitoring device. And the
2 way it's set up is that anything in the fund in excess of
3 \$150,000, the original seed money, well, every year will be
4 kicked back into the general revenue fund of APICDA, so I
5 think our budget for this upcoming year shows like \$150,000
6 contribution back into APICDA. So, where we stand right now
7 is approximately \$6.5 million on that fund in the quest of our
8 \$10 million target.

9 A little ROI slide for you. As you know, one of our
10 founding premises was that we would invest in-region and hope
11 we could just break even on some of our in-region business
12 investments and we would invest outside the region to get
13 positive ROI. And we would use our royalty money in the
14 positive returns from our outside investments to fund ongoing
15 operations. That gives you a snapshot of how we've done with
16 our outside investments. That represents, you know, profit
17 distributions really. \$6.4 million invested outside with a
18 return to date of approximately \$9.5 million or showing 149
19 percent return on investment.

20 I just want to give you an idea, you know, of some of,
21 you know, you can argue this however you want to, some folks
22 think you ought to be highly leveraged. A lot of people in
23 the seafood industry think since we're dealing in a commodity
24 environment that debt is not good, you know. We've been
25 partnered up with Trident Seafoods from the beginning and they

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1 don't like debt. Prowler Group doesn't like debt. Our
2 Seattle partners attitudes with this industry, you know, debt
3 is not good and we've tried to follow their lead, really we
4 try to keep our debt as low as possible. And you can see our
5 debt to equity ratio is .09 to 1, and our current ratio is 125
6 to 1, so we've got a lot of cash and very little debt.

7 Mr. Commissioner, we -- I should say, we've -- Johnny
8 Moller, of course, is our general manager and credibly
9 important to our operations, and he's -- I don't know if I'm
10 his right-hand man or he's my right-hand man, but he makes a
11 lot of our in-region stuff. It wouldn't go without him
12 because of his ties to the region, and also just his personal,
13 you know, common sense, experience and knowledge that he
14 brings to the deal. And as you know, we worked to get him on
15 the Advisory panel of the North Pacific Council where he now
16 sits, and we also got him into this future leaders program
17 this past year, so he spent this past year with the National
18 Fisherman's Institute and a future leader's program with the
19 seafood industry folks from all around the nation. And I'm
20 very proud of John and he's going to talk about our vessels
21 program now.

22 MR. BLATCHFORD: Thank you. Madame Chair, I
23 neglected to introduce a member of our team here when we
24 started, who wasn't here the last time. It's Deputy
25 Commissioner Al Clough. So, Madame Chair, my apologies.

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1 MR. MOLLER: Thank you, Joe. For the record,
2 my name is John Moller, it's M-o-l-l-e-r. I appreciate the
3 introduction there, Joe.

4 Commissioner, Members of the CDQ Team, this morning
5 I'd like to give you a brief over-view of APICDA Vessels, Inc.
6 that Joe described briefly, and Larry touched on also. I'll
7 refer to APICDA Vessels, Inc. throughout my report as AVI, an
8 acronym.

9 AVI consists of eight vessels less than 60 feet in
10 length overall, five of which are less than 35 feet. All of
11 these vessels concentrate on Halibut CDQ. We started this
12 company with three 32 footers, which we constructed in the
13 early 90's, and since then we have increased our fleet, both
14 in numbers and in size, to insure 100 percent harvest of all
15 of our CDQ halibut.

16 We also fish all of APICDA Joint Ventures halibut IFQ
17 in the Bering Sea and with three of our larger vessels. The
18 IFQ I'm referring to is what Larry spoke to earlier in terms
19 of APICDA Joint Ventures investments.

20 In addition, two years ago we made improvements to our
21 largest vessel to accommodate longline pots so we can
22 participate in the sablefish fishery in the Bering Sea. I
23 think most of you are aware that there's been some effort
24 from, you know, the fleet, the sablefish fleet to convert to

25 pots because of the whale problems we're having in the Bering
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1 Sea. You know, all of these vessels are largely crewed by
2 local APICDA residents. In a few cases we've hired, you know,
3 from some of the other CDQ groups up north, Unalakleet and
4 Grayling and a couple of other communities up there. So,
5 that's the composite of our crew that man these vessels.

6 The slide we have up here is total income versus
7 expenses for this company since 2000. And for purposes of
8 this presentation, we have rounded the numbers. And you will
9 notice that since 2000, AVI has grossed over \$6.4 million and
10 with expenses of about \$5.9 million, of which a large portion
11 of these expenses are going into our -- going into local
12 businesses in our communities just for the day to day
13 operations of this fleet.

14 Our income in excess of expenses has been accomplished
15 despite the fact that we knowingly lose money on a couple of
16 our vessels as you can see up there, and the purpose for this
17 is to simply create markets and income for, you know, in one
18 case a skiff fleet that operates in harvesting halibut in St.
19 George. In another case is a vessel that we've -- we have
20 based out of Akutan of which we're working on developing a
21 fishery there in conjunction with a skiff fleet. We've given
22 them a larger, you know, a larger platform, if you will, to
23 help augment their IFQ fishery in Akutan.

24 We charge the fishermen a -- which is pretty typical
25 in the commercial fishing industry, we -- the company takes
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1 its share and by assessing a lease fee to the fishermen, based
2 on the net revenue that they earn by fish deliveries. And
3 through this process AVI has recouped its initial investment
4 plus its capital improvements on four of the eight vessels
5 that you see up there. So in other words, four of the eight
6 vessels have essentially paid for themselves since we
7 purchased it.

8 I think you'll look at -- there's one other vessel up
9 there that I didn't touch on, Taty Z, you know, it's got an
10 operating loss of \$25,000, that is essentially -- we bought
11 that boat two years ago and you know, we've had a local Atkan
12 running the boat. And typically, what we try to do over the
13 years is, is they started off in skiffs, upgraded to our 35-
14 footers, and the skipper of the Taty Z, which is a 54 footer,
15 has essentially, through the years, upgraded his vessel. And
16 the bottom line on the Taty Z is, he's, you know, there's a
17 little bit of a learning curve and he did much better this
18 year than he did last year, and we expect that number to not
19 have brackets around it next year.

20 As I mentioned, you know, providing larger platforms
21 and a market for local fishermen has been and will be, I
22 think, a very high priority of APICDA. Over the years, these
23 vessels have provided residents with safer and higher
24 producing vessels, and this has resulted in sparking the local
25 economy in many of our communities.

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1 As I mentioned earlier, the AVI fleet depends heavily
2 on APICDA's CDQ halibut, and it has been a critical component
3 of the success that we've experienced thus far.

4 I would also like to mention that, you know, over the
5 years we have -- as the fleet has grown, it became apparent we
6 needed to also grow the management of the team, the management
7 team, if you will, in terms of managing it. So, over the last
8 couple of years I have -- we've hired a gentleman from
9 Unalaska, Tom Robinson, he serves as my assistant. And in
10 addition to that, we've recently hired Jeff Kashevarof from
11 St. George, to serve as a port engineer for this fleet. And
12 they assist me in the day to day operations of the fleet, and
13 we believe it's going fairly well and look forward to it
14 getting better.

15 That concludes my comments. Thank you. Commissioner,
16 at this time I'd like to turn it over to Justine Gundersen.
17 She's going to speak on Atka Pride Seafoods, our local plant
18 in Atka.

19 MR. BLATCHFORD: Are we on time, Greg?

20 MR. CASHEN: Yes.

21 MS. GUNDERSEN: Good morning. My name is
22 Justine Gundersen, G-u-n-d-e-r-s-e-n. I'm going to talk about
23 Atka Pride Seafoods.

24 This is the first in-region company that APICDA
25 created. Atka Pride Seafood's was form in 1994, and is
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1 jointly owned by the local fishermen's association and APICDA
2 Joint Ventures. It was formed and made viable because of the
3 halibut CDQ allocation APICDA has received in Area 4B.

4 APICDA has put over \$1.6 million into infrastructure
5 in the community of Atka to support the plant. APS is
6 essentially 100 percent staffed by local residents. Since the
7 plant has been in operation, it has paid over \$1.8 million in
8 wages to plant workers. It has also generated over \$240,000
9 in taxes to the city and has paid another \$140,000 in fish
10 taxes to the state of Alaska. An additional \$7.6 million has
11 been paid to fishing vessels for the fish delivered.
12 Approximately 80 percent of these fishermen were local Atkan
13 residents.

14 This slide represents Atka Pride Seafood's financial
15 impact on the community of Atka since 1994. For purposes of
16 this presentation we have rounded these numbers. The
17 reduction in ex-vessel values from 2003 to 2004, is the result
18 of the substantial decline in the halibut quota in Area 4B of
19 50 percent over the past three years. This is having a
20 substantial adverse impact in the income derived from 4B CDQ.
21 You will note the 2004 line is year to date. By year-end, the
22 ex-vessel value will increase by about \$375,000, with a
23 corresponding increase in city and state taxes.

24 With less CDQ available, we recently ventured into
25 added value products such as fletches. Although we only
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1 produced a modest amount of fletches in 2004, we made the
2 necessary improvements to the plant to ramp up the fletching
3 operation in 2005.

4 We are also proud to report that we landed a contract
5 with Whole Foods. Because of the high quality product we
6 produce, we were awarded this contract over other major fish
7 processors operating throughout Alaska. Whole Foods is a
8 high-end grocery chain specializing in products above industry

9 standards.

10 As you can tell, there is little -- the CDQ has had
11 and continues to have a significant impact on the community
12 and residents of Atka.

13 Thank you. And I'd like to say that CDQ has an impact
14 in all of our communities, not only our CDQ, APICDA, but all
15 six, you know, six groups. It's been a -- I mean, Atka is a
16 jewel, but there are jewels throughout all the groups. Thank
17 you.

18 MR. COTTER: Commissioner, we're now going to
19 turn our attention to the future. We're about halfway
20 through.

21 MR. CASHEN: You have about 25 minutes.

22 MR. COTTER: Left?

23 MR. CASHEN: Yes.

24 MR. COTTER: Okay.

25 MR. BLATCHFORD: I should say, Mr. Cotter,

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1 Madame Chair, that we have the Department of Law watching us
2 back in the corner.

3 MR. COTTER: Well, you're now to two guys who
4 don't have much to say, so I'm sure we'll move quickly.
5 You're on, Joe.

6 MR. KYLE: Commissioner Blatchford, Joe Kyle
7 again. K-y-l-e. I don't think I said that the last time.

8 As Justine just gave you a representative example of
9 our in-region investments and how it's done over the past,
10 we're now going to give you, you know, the future. This is a
11 pro forma based on one of our proposed in-region investments
12 in the future. As you may well know, we recently contracted
13 with the McDowell Group to do a feasibility and business plan
14 for our community of False Pass to put a right-sized shore
15 based plant in the community.

16 The material you're going to see here about False Pass
17 is based on the business plan that McDowell Group presented
18 us. I put this slide up here to really indicate to you the
19 importance of CDQ to a small coastal plant in one of our
20 communities. As you can see, that pro forma, and this is --
21 this is year one operations. This is a start up year. The
22 McDowell Group's business plan showed it would lose about
23 \$28,500 with the commitment of APICDA CDQ as input to the
24 plant's operation. And what we have factored in there, I
25 believe, is some of -- is some Bristol Bay Red King Crab, CDQ

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1 and some Bering Sea sablefish.

2 MR. COTTER: CDQ and IFQ.

3 MR. KYLE: Yeah, CDQ and IFQ. You take that
4 CDQ out of the business plan as if its not available, and the
5 first year start-up operating losses would be, you know, eight
6 times what we're looking at with the input of CDQ going into
7 it. So, yeah, we can look at losing 25 grand in year one of a
8 start-up business, but we don't like to look at 211 grand in
9 operating losses in the start-up year of a new business. So,
10 you can just get a relative feel for how critical that CDQ is
11 to a small coastal shore plant where the outside sector is
12 never seen fit really, to -- to you know, to go in and invest.

13 I've got some False Pass slides here now to just give

14 you an example of what the developments may look like. And we
15 could take this set of slides and put Atka up instead and you
16 would see, you know, a real world vision of what we hope False
17 Pass will look like in the future. That's going to be a
18 little hard to see with this lighting, but the dock there is
19 the old city dock. That's what False Pass looked like when we
20 started the CDQ program. One of the first things we did in
21 addition to helping that city dock to get up and running and
22 contribute money towards the future development of the harbor,
23 was help with the Isanotski Warehouse there, a gear storage
24 warehouse and general purpose warehouse that the tribe
25 operates and which Gilda heads up.

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1 Since that time -- oh, thank you. We've got utility,
2 -- you can now see that red rectangular quasi looking box,
3 that's four acres of land that we have a lease on and we've --
4 while BPS 1 was operating, we were able to run utilities and
5 services from that plot of land to the city dock. During
6 BPS's operations, you can see where the dipper slid in, the
7 bunkhouse that we built there was constructed. We also got a
8 power module in place on the property that we have a lease.
9 Near the very end of BPS's operations we built about a quarter
10 of a million dollar icehouse there, and it's staged for future
11 operations. As you know, Congress is funding now this boat
12 harbor and it's supposed to go out for bid in the spring of
13 '05. But that's what the future we hope will look like for us
14 when the boat harbor goes in.

15 You can see where our proposed new right-sized, you
16 know, coastal shore plant will go that will serve the
17 community, it's fishermen and nearby fishermen.

18 MR. BLATCHFORD: I have a question, Joe. The
19 harbor, will that be rock or will it be.....

20 MR. KYLE: Rock.

21 MR. BLATCHFORD: Rock? From where?

22 MR. KYLE: The breakwaters.

23 MR. BLATCHFORD: The breakwater?

24 MR. KYLE: Right.

25 MR. BLATCHFORD: I mean, where will you get

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1 the -- is that armor rock there?

2 MR. KYLE: Yeah. Larry could probably speak
3 to that.

4 MR. BLATCHFORD: Never mind. It was just.....

5 MR. KYLE: Okay. Yeah, it's a Corps of
6 Engineers project, the Aleutian's East (ph) Borough is the
7 lead on it and we're supporting their efforts, and we've been
8 successful in getting some funding out of Congress to add some
9 betterment to what the borough was able to get initiated. And
10 that's primarily on that area to the left, the northwest, if
11 you will, that breakwater arm there, we've got, through
12 Congressman Young's efforts, some additional funds on top of
13 the Corps funds to put a bridge and a roadway out so we can --
14 actually make that south, which looks like the northwest arm
15 of the harbor, to be a dock for the new plant.

16 MR. COTTER: The rock is going to come from
17 King Cove.

18 MR. BLATCHFORD: The reason I asked the

19 question, is often in other places in Alaska we find the rock
20 coming from hundreds of miles away, or even further.

21 MR. KYLE: Yeah. Right. And again, this is
22 just illustrative of what we are doing in our local
23 communities, you know, Atka, you would see that a lot of that
24 is already built and in place and operating and we still have
25 developmental funds.

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1 And just to close out this section of the
2 presentation. I, you know, the CDQ, as you know, is
3 incredibly important to these corporations, you know, the
4 primary reason is that it provides, you know, the cash input
5 to fund our businesses. But also, as I was kind of showing
6 you in the False Pass example, I mean it gives us raw material
7 and through-put for our small coastal shore plants that, you
8 know, as all the fisheries are becoming rationalized, we must
9 have -- we must have our own rationalized fishery, and CDQ is
10 that and it provides that quota for us to operate businesses
11 just like the big Seattle industry operates.

12 The other thing that -- two other -- actually two
13 other things that I just want to mention briefly on is the
14 importance of that CDQ. If we are allowed to go ahead and
15 complete our long range plan, which is to have a lot of small
16 coastal right-sized fish plants in our coastal communities in
17 the Bering Sea and the infrastructure that's necessary to
18 support them, we're going to more and more and more have draws
19 on our CDQ for, you know, to improve and maintain and
20 modernize those facilities.

21 And just real briefly, I mean, last year we had a
22 \$500,000 capital improvement project in Atka, -- actually
23 budgeted for I should say, a \$400,000 capital improvement
24 project in Atka, you know, adding glass (ph) freezers, adding
25 the cold storage capacity, things like that. We have to do it

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1 again this year, another 400 grand for, you know, upgrading
2 the power.

3 We never had a redundant ice system, you know, we're
4 way out there at the end of the Aleutian Chain and we have to
5 have redundancy there, we can't -- we have to be zero defect
6 in terms of a major component of our plant breaking down. I
7 mean, sometimes it would take us a week to get a part out
8 there, so we have to build in redundancy. We have to stay
9 very state of the art in terms of the equipment, very low
10 labor type of equipment, low maintenance type of equipment.
11 And that's just, you know, unless we're going to go out to the
12 commercial sector and borrow large amounts of money from
13 commercial banks and institutions, we need to use a lot of CDQ
14 royalty money to keep what we've got in place and operating at
15 cheap interest rates, you know, for the local business. I
16 mean, Atka has got a -- Atka Pride Seafoods has taken out a
17 loan this next year from APICDA at, you know, a prime rate of
18 interest. We think we should pay something back to the parent
19 for loaning us the money, but you know, that's -- we need that
20 CDQ to keep the stuff from rusting away.

21 MR. COTTER: Commissioner, I'm going to
22 briefly go through projects, as I know we don't have a whole
23 lot of time. And it will come as no.....

24 MR. CASHEN: About?

25 MR. COTTER: About 15 minutes.

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1 MR. CASHEN: About 15 minutes, yeah.

2 MR. COTTER: We'll do it easily within that
3 time. It will come as no surprise to you that as you look at
4 our proposed '06 to '08 CDP, you're going to see our focus is
5 on infrastructure and businesses in our communities.

6 We're getting close to being done with the basis, the
7 core infrastructure, and you know, there's other things that
8 need to be done, but now we're moving into putting the
9 businesses in these various communities. There's costs
10 associated with constructing the operations and as Joe said, a
11 cost associated with maintaining them in the future.

12 Akutan, we've committed \$850,000 matching funds for a
13 harbor in Akutan. Hopefully that will happen in '06, but we
14 will see. And I'm not going to try and -- I'll just say this
15 one time and that will save some time. You'll see in a lot of
16 the communities as I go through, we have developed support
17 services and businesses, and that occurs in conjunction with
18 the small boat harbor. When a small boat harbor comes into
19 Akutan, there's going to be opportunities, ship supplies, so
20 on and so forth. And we intend to fill those opportunities,
21 hopefully, in partnership with the local village corporation
22 or some other entity in each of the communities. Also in
23 Akutan, we're going to continue our halibut quota share
24 purchase program.

25 Atka. We really need a boat harbor in Atka and we're

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1 going to be working hard to get planning money next year to
2 initiate that process. We do need to widen the face of the
3 city dock. We're planning to construct a new and larger Atka
4 Pride Seafoods plant in 2007. That, hopefully, will be
5 operationable in '08. There's a couple of reasons why we need
6 to do that, right now we're limited to halibut only,
7 essentially, in Atka. Our halibut CDQ has been declining as
8 the quota declines. We need to expand the operation to
9 provide us with some diversity and provide more opportunity on
10 a local level.

11 Additionally, with the addition of Brown Crab and Adak
12 Red King Crab, we think those are great opportunities to bring
13 those products into Atka. So, in '07 we plan to construct.
14 And then again, you can see we plan some additional support
15 type businesses when the harbor goes in.

16 False Pass, we've been working to get the airport
17 done, secured federal funds in conjunction with the Aleutian's
18 East (ph) Borough to do that. That's important to us because
19 it's so difficult to get into False Pass, and one of the big
20 expenses we experienced in our last iteration of Bering
21 Pacific Seafoods was transportation costs. And we've got to
22 get that airport upgraded so that we can reduce our costs,
23 parts and supplies and so on and so forth.

24 The Board of Directors, at our last meeting, approved
25 of constructing the new shore plant in False Pass in 2005.

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1 Our estimated cost of that is \$3.5 million. Our budget for
2 2005 that you will see soon, assumes that we are going to pay

3 for that in cash. We had the flexibility to go get a loan,
4 but we also, at this point in time, are planning to do it in
5 cash.

6 Once we get the harbor in, and construction will start
7 this year, be done next year, then we plan to move ahead with
8 the Isanotski Corporation and look at putting in a store, fuel
9 farm and ship supply.

10 In Nelson Lagoon, we're going to move forward with
11 putting some private aids to navigation, hopefully that will
12 occur in '06. We will do the prep work for it next year, that
13 will make it easier for vessels to get in and out of Nelson
14 Lagoon where they've got shifting sand bars and so on and so
15 forth.

16 We plan to construct a shoreside plant in Nelson
17 Lagoon in '08, and we've already started that process. We're,
18 you know, initiating the permit acquisition and been funding
19 some studies on hydrocarbons, et cetera, et cetera.

20 As you may know, we have the Nelson Lagoon gear
21 storage warehouse there and we're planning to move forward
22 with the store and ship supply when we get the plant in.

23 Nikolski, we're going to try and put a boring system
24 in on our own, using our own funds to make water access to the
25 community easier. We also need to complete the airport

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1 improvements, and that will help the lodge quite a bit.

2 By the way, the Ugludax Lodge is going to operate in
3 the black in 2004, which is impressive.

4 St. George, I mentioned earlier, the shoreside
5 processing plant, we had hoped to do it in '05, we're going to
6 move that to '06. And we're working with the local entities
7 to try and convince National Marine Fisheries Service and Fish
8 and Wildlife Service to construct a Central Bering Research
9 Facility in the community.

10 The shoreside processing plant is going to be a joint
11 venture between APICDA and Snow Pack Seafoods, and it will
12 operate as a custom processing facility where we'll, you know,
13 each entity will have committed their crab resources, opilio,
14 in the case of APICDA, for processing at St. George.

15 Other projects. We'll continue with our existing
16 businesses, product diversification program. We're going to
17 look at some mariculture opportunities.

18 Freight, logistics, passenger ships. We've got a lot
19 of difficulty in moving people, parts and supplies throughout
20 the Aleutians. Pen Air, God Bless Oren, you know, that
21 company is not reliable in our region and sometimes it's weeks
22 before we can get a part out there. And so one of the things
23 we're going to look at is getting a ship that's got capability
24 to move freight and passengers and improve transportation in
25 that area.

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1 As Johnny mentioned, we're going to continue to expand
2 our small boat fleet, bringing people into larger and larger
3 vessels. Crab harvesting and processing shares. Crab
4 rationalization has put St. George and St. Paul in a very
5 difficult situation, in my opinion, the two communities are
6 now competing against each other. The -- we have some
7 protection for the first couple of years, processors who have

8 their shares and St. George and St. Paul cannot move them out
9 for the first two years, but after that they can move them out
10 without compensation to the community as long as it's within
11 the region.

12 If we don't have a processing facility in St. George,
13 those shares are going to move to St. Paul. That means 100
14 percent of the crab will be processed in St. Paul and that
15 leaves no future for St. George. So, you know, we simply must
16 -- we must get a shore plant in St. George and we must begin
17 to acquire shares to provide St. George for the future.

18 The shoreside support companies, you know, this is
19 more generic than anything else, although we are looking at
20 seeing if we can develop some sort of -- enter into some sort
21 of ship repair business in Unalaska. We spend a lot of money
22 on our boats in other areas, and what we would like to do is
23 start spending that money in our region, if possible, but
24 certainly in companies that we own all or part of.

25 The private label and marketing program. I mentioned
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1 earlier, our investment in Cannon Fish Company. Johnny Moller
2 mentioned Whole Foods. We're moving forward, in conjunction
3 with Cannon Fish Company, to develop a private label, you
4 know, Aleut Princess, or what have you, as an example. And a
5 marketing program that will target the type of products,
6 specialty products that we'll be producing at all of our
7 plants.

8 Power Generation. The cost of power is huge in our
9 area as it is throughout rural Alaska. We have a lot of
10 opportunities with wind, we think, TDX has done a good job in
11 St. Paul with that, and we will be working with our
12 communities to see whether or not wind power offers an
13 alternative. And if so, you know, we intend to move forward
14 and try and bring wind power into our communities knowing that
15 that will also reduce costs at our processing facilities,
16 which is important to make them viable.

17 A couple of other things and then I'll wrap up. This
18 is just a quick slide, you know, I'm proud of what the groups
19 have done collectively on Yellowfin Sole. I think I mentioned
20 before, in '03, APICDA was the first group to take all of its
21 flatfish, and I think all of the groups did it this year, but
22 I just did this comparison here, and I'm not sure that the
23 numbers are accurate, you know, there's the -- there's the
24 qualifier on the bottom. There's an assumption there, but you
25 know, if you -- this slide shows relative bycatch rates. And
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1 you can see that, you know, we did a pretty good job in terms
2 of bycatch rates.

3 And then this is just our discard rate, and the
4 Yellowfin sole fish for '04, we're at three percent, and '03,
5 we're at two percent. I just looked at some documents this
6 morning from NMFS, where I think the industry average in this
7 fishery was 34 percent this year at discard. So, this is
8 pretty remarkable.

9 A couple of other comments and then we'll be done.
10 The world today is, -- realistically there are three large CDQ
11 groups and there are three relatively small CDQ groups in
12 terms of size and assets. And I just want to point out

13 something that I think has become obvious to me, and wanted to
14 share it with you, and that is, the way allocations -- the way
15 the state makes allocations or has in the past, has down
16 stream impacts, that you know, become obvious over time. And
17 you know, I think they're becoming obvious now.

18 If you take a look at the assets that each of the
19 groups have, you'll notice that there's a substantial
20 difference between the three small groups with the lower
21 pollock allocations and the three larger groups with the
22 higher pollock allocations. We simply don't have, you know,
23 the investments and larger vessels and so on and so forth that
24 the others have. And what happens is that if you're a group
25 with the smaller amounts of allocations, two things happen to
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1 you; one, it can be difficult for you to compete financially
2 in the marketplace to buy an asset, because the entity you're
3 competing with may well be another CDQ group that has more
4 money and more capability to leverage more money than you do.
5 And I know of at least one instance where that happened, where
6 one of the smaller groups was unable to acquire an asset
7 because one of the larger groups was able to spend more to get
8 it.

9 The other thing is that the groups with the smaller
10 allocations are simply not as attractive to the existing
11 industry for partner reasons because we don't have the larger
12 allocations and you know, some people believe that's a trend
13 that's going to continue, so if you're a private sector
14 company looking to partner up with a CDQ group, what you're
15 going to do is, you know, class the six groups and you're
16 going to choose what you think has the best and the brightest
17 future, and you know, that is often times based either on
18 allocation or on the amount of money that you see that other
19 group have.

20 And the only reason bring this up is not to attack any
21 groups, but you know, to suggest that you know, we would hope
22 that you would take that into consideration in making
23 allocations because if the trend continues, we may find
24 ourselves in five, six or ten years, where in essence there
25 are three groups because the three smaller ones will not have
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1 been able to compete and will have been subsumed.

2 And that's all we have, Commissioner.

3 MR. BLATCHFORD: Thank you, Larry. Madame
4 Chair and Greg, do you suggest a break?

5 MR. CASHEN: Yes. If we could take a five
6 minute break and then we'll open the floor up for public
7 comments, and then the state will have an hour to ask
8 questions of APICDA. So, that's kind of our format, but I
9 would like to take a five minute break, if that's okay, and go
10 off record.

11 (Off record)

12 (On record)

13 MR. CASHEN: Okay. We're back on the record.
14 And we'd like to open the floor for public comment.
15 Commissioner O'Cleary, if you would like to make some comments
16 on the CDQ program?

17 COMMISSIONER O'CLEARY: I would. Thank you,

18 Mr. Cashen. You'll have to excuse me in terms of my voice,
19 I've been yelling at a lot of people lately.

20 MR. BLATCHFORD: You can yell at us if you
21 wish.

22 COMMISSIONER O'CLEARY: No, I'm among friends
23 here. (Laughter) As you know, the whole concept behind the
24 creation of the CDQ program was to fold back into the regions,
25 the highest return economically for the regions. One of the
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1 pieces of that particular strategy that has not worked very
2 well frankly, has been the hiring of Alaskans in that industry
3 across the board.

4 The operating plants, I think have done a fair job of
5 promoting Alaska hire, but the state has not lived up to their
6 obligation in terms of assisting with training workers and
7 helping to make them work-ready and acceptable to the
8 employers.

9 On Thursday, Governor Murkowski will roll out, at the
10 Gambell Job Center at 1:30 in the afternoon, the beginning of
11 the most aggressive job's program that this state has seen
12 since the Trans Alaska Pipeline was built. The main focus of
13 that, of course, is the anticipated resource development
14 projects that the Governor has been working hard on, and that
15 the cabinet supports. But the existing structure of the CDQ's
16 gives us the first and best opportunity to make the dream of
17 CDQ's success possible. Jobs are Alaska's future. Our people
18 are Alaska's future, and in order to bring some economic
19 development home to the regions where the CDQ's exist, we must
20 have more cooperation from the industry and more involvement
21 by the state in funding and directing dollars on a leverage
22 basis to train and make work-ready Alaskans from rural Alaska.

23 As a result of negotiations with the Marine Exchange
24 of Alaska, which is a consortium of all major water carriers
25 in the commercial trade within our state, we have reached
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1 agreement, and we will shortly initiate a grant to set up the
2 program where they will commit to fill all vacancies with
3 qualified Alaskan workers that will be trained at a new
4 facility and a new curriculum established in Seward, Edgar's
5 hometown, immediately upon signing of this grant. They have
6 approximately 100 openings at any given time, and they have
7 been filling them with non-Alaskans because they could not get
8 trained Alaskans that were interested in that industry.

9 The department has been sending dollars to the east
10 coast to train workers for the industry, but those workers
11 have a choice, they don't necessarily choose Alaskan operators
12 and we want to change that. So, it's an aggressive program
13 that fits perfectly the at-sea processors.

14 Recently, in my office, there's a federal requirement
15 and a state requirement that any certification for a foreign
16 worker comes through my office for, shall we say approval, and
17 passed onto the federal government for the Federal Department
18 of Labor so that they can bring foreign workers in to do work
19 within our state and within our country.

20 I have pocket-vetoed every one of those applications
21 for floating processors, with the idea that I want to talk
22 with them about Alaska hire. Now, I certainly don't want to

23 disadvantage them in terms of that cash crop, but I will
24 disadvantage them if they don't come to the table and start
25 talking seriously about hiring Alaskans.

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1 And I wanted your group to know -- Mr. Cashen was kind
2 enough to reserve a spot under public comment, and I'll be
3 happy to answer any questions that you may have of me.

4 MR. CASHEN: Thank you, Commissioner O'Cleary.

5 MR. DAVIS: Yeah. Commissioner O'Cleary, this
6 is Mr. Davis and I have a question. In terms of some of the
7 CDQ groups partner who with various fish companies, do you
8 have any suggestions for a CDQ group vis-a-vis your programs?

9 COMMISSIONER O'CLEARY: I know that three of
10 the CDQ groups are involved in a financial interest with one
11 of the companies who will go unnamed here. That particular
12 company, I think has had some difficulty with respect to
13 operating cash. I have opinions about that, I don't know that
14 -- well, I'll share them. I think the operating cash went
15 into people's pockets rather than -- the management pockets
16 rather than reinvesting in the company.

17 I think they may be successful in an attempt to get
18 Senator Stevens to assist them with additional funding, but I
19 would say this about that particular company; my advice to the
20 CDQ groups that are involved financially with that company and
21 any other, is that you need to leverage for commitments for
22 Alaska hire from people from the regions. The Department will
23 -- we have a facility, a Savak (ph), in the region that we
24 will actually place trainers in that area in order to meet
25 Coast Guard standards. For some mariners they will have to go

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1 through what we call STCW certification, which will be done in
2 Seward, and we hope to be able to actually have the Coast
3 Guard give the exams in Seward so that we can cut down on
4 travel.

5 The Department may be able to actually assist in
6 travel cost of those members from the region if they are shown
7 as dislocated workers or workers that were impacted by the
8 industry's pricing situation at the moment.

9 There is one other bit I think that is important to
10 the CDQ groups and that is; the Department of Labor economist,
11 Mr. Gilbertson's article in this last months "Trends" that
12 really points to the problem that almost 80 of the value of
13 Alaska's fisheries are flowing outside this state. And those
14 are pay checks and revenues that frankly, we need to recapture
15 for the economy of our state.

16 But my advice to the CDQ groups that are in business
17 directly with companies that own floaters, put the hammer down
18 on those companies and get commitments, not just a commitment,
19 yeah, we'll hire Alaskans, we want commitments on numbers. We
20 want hiring commitments.

21 The Department of Labor will no longer just refer
22 people to industries, we will refer them to hires. We will
23 not train people for non-existent jobs, that's a waste of your
24 money and your tax dollars. So, my advice is to get tough on
25 people you do business with if you really want to bring jobs

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1 to the region. And that's what it's really all about, bring

2 jobs home, get tough with them. And the Department will be
3 there. I know that Commissioner Blatchford is also working
4 that same angle. The private sector investment in our state
5 brings jobs, and our job is to make sure that those jobs are
6 first offered to qualified residents of our state.

7 MR. CASHEN: Commissioner, I appreciate you
8 being here today and taking the time to talk with us about new
9 efforts that the Department of Labor has with trying to hire
10 local residents. One of the evaluation criteria that we look
11 at in the evaluation of the proposed community development
12 plans are education training, and employment programs that
13 will provide career track opportunities for local residents.

14 The CDQ groups, in their negotiations with their -- in
15 their royalty contracts have the ability to negotiate
16 employment agreements. And I share your goal of hiring more
17 Alaskans, and I think the groups should focus on that as a
18 priority.

19 COMMISSIONER O'CLEARY: Mr. Cashen, if I might
20 -- if you would insert some stronger language in those
21 agreements, the Department stands ready to assist in filling
22 and helping them fill those commitments.

23 MR. CASHEN: Okay.

24 COMMISSIONER O'CLEARY: Both with -- as your
25 dad used to say, money, marbles and chalk.

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1 MR. CASHEN: Okay. Point taken.

2 MR. CLOUGH: Commissioner O'Cleary, just so I
3 can verify. It seems that there's kind of two avenues that
4 the Labor has here, one is through various training programs
5 and expanding, tailoring those, et cetera; and the second one
6 is through your authority as Commissioner, to oversee the
7 foreign hire and give -- either issue those approvals or
8 perhaps not issue those approvals. So, if a group was trying
9 to -- a CDQ group was trying to leverage one of their partners
10 to provide actual hires for their community members, they
11 would then be able to come to you and indicate numbers that
12 are available, which then you would be able to factor into
13 your decisions?

14 COMMISSIONER O'CLEARY: Absolutely, Deputy
15 Commissioner. One of the failings, I think of government, is
16 we don't always do our homework first. One of the areas that
17 we are lacking is, we don't have a good feel for skills
18 assessment in the various regions. Year's ago, I think the
19 construction industry was trying to get the for profit
20 corporations to do that -- such as skills assessment. We're
21 actually getting closer to doing it.

22 My view is this, if a CDQ group or a region of the
23 state in rural Alaska, approaches the Department of Labor and
24 says, we need assistance, we're there to assist with the --
25 not only skill assessment, but also directing the customized

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1 training to meet the needs of the employers. Because as Mr.
2 Cashen has stated, the career track is where it's at, we're
3 not just going to train folks to slime fish. That's a
4 beginning, an entry.

5 We have graduated over 10,000 students out of our
6 educational system every year, and we've only been able to

7 offer them up about 4,800 jobs a year. Do you know why?
8 Because we're not able to offer them jobs on floating
9 processors. That's one of the missing links. Because as you
10 know, there are a lot of people that work out there on a
11 seasonal basis. That's just a beginning. Young people learn
12 work ethic when they work hard in our industries. It's a
13 start, but I want to see hopefully, in my life time, that the
14 people running those large ships and those processors, see in
15 management, and as captains and mates and licensed engineers
16 and plant supervisors, I want those to be people out of the
17 villages. I want those to be people who deserve to make those
18 large salaries.

19 MR. CASHEN: Commissioner, in the offshore
20 ground fish industry, it's possible for a local western
21 Alaskan resident to work, for example, in the pollock A season
22 from January through March, and earn a considerable amount of
23 money, and then still fish commercially for salmon in the
24 summer and subsistence hunt in the fall. So, there's a lot --
25 it's an extreme benefit to the local residents, and they can
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1 still conduct their commercial fishing for themselves and
2 their subsistence activities. So, I think that's a great
3 opportunity for Western Alaskan residents.

4 COMMISSIONER O'CLEARY: It is, Mr. Cashen, and
5 I want to say this, the Department of Labor or no other state
6 agency should attempt to change someone's traditional
7 lifestyle. What we are attempting to do is have the employers
8 recognize the lifestyle. Work within it, in its limitations,
9 so that people have more economic benefits for the things that
10 we're creating for them.

11 The CDQ program was probably, and has been, probably
12 the most successful program of bringing economic development
13 to rural Alaska, and it really needs to be used fully to bring
14 economic development and economic benefit to the residents of
15 those regions. And I think helping us to employ people from
16 those areas is a major piece of the success story of the
17 CDQ's.

18 MR. CASHEN: Just to add one more comment,
19 Commissioner. Since the inception of the program, over a
20 hundred million dollars has been generated by the CDQ program
21 for employment, training and education. I think we can build
22 upon that, however, in the future.

23 COMMISSIONER O'CLEARY: Very well. Again, the
24 Department stands ready to assist in any way we can in
25 leveraging those funds, along with our federal and state
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1 training funds to start telling some success stories.

2 MR. BLATCHFORD: Commissioner, I'm assuming
3 that your comments apply to all six CDQ groups?

4 COMMISSIONER O'CLEARY: That is correct. I
5 may not be able to appear before all of them, but I would like
6 those in the record to be shared with the other three, if
7 that's possible?

8 MR. BLATCHFORD: Okay. Will you do that, Mr.
9 Cashen?

10 MR. CASHEN: I sure will. There will be a
11 public transcript available.

12 COMMISSIONER O'CLEARY: And if I might wrap
13 up. Governor Murkowski came back to Alaska for one major
14 reason, and that's to develop our natural resources and create
15 economic opportunities and jobs for our residents, and employ
16 you. And as a member of his cabinet, along with Commissioner
17 Blatchford, this is the prime objective of this
18 administration, get Alaska back to work.

19 Thank you very much.

20 MR. CASHEN: Thank you, Commissioner.

21 MR. BLATCHFORD: Thank you, Commissioner. Mr.
22 Cashen?

23 MR. CASHEN: Are there any further public
24 comments, either from people in attendance or on-line here?

25 MR. BLATCHFORD: And Greg, where do we have

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1 hookups?

2 MR. CASHEN: We have hookups in Nome, Bethel,
3 and Dillingham.

4 MR. DAVIS: And can't we just canvass those?

5 MR. CASHEN: And what, Mark?

6 MR. DAVIS: Maybe we should just go by and ask
7 if anybody's on-line from any of those places? No one's on
8 line? Okay.

9 MR. CASHEN: Okay. We'll close public comment
10 at this time. The next hour the state has some questions for
11 APICDA. We'll proceed here. Do you want to ask the first
12 question?

13 MR. BLATCHFORD: Okay. How -- Madame Chair,
14 how we have decided to do this is that we have a series of
15 questions, and each member of this team -- or most members of
16 this team will be asking a question for purposes here. Mr.
17 Black is not here, so I'm going to insert so I'm going to
18 insert Al Clough, was that -- would be agreeable?

19 MR. CLOUGH: That's fine.

20 MR. BLATCHFORD: Okay. Al Clough. Okay. So,
21 I'm going to have the first question to APICDA, okay? And
22 these questions, we go through the same process with all six
23 CDQ groups, both publicly and privately, okay?

24 The first question, and you may or may not have
25 answered the question in your presentation, but APICDA, to any

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1 member of the management team, Madame Chair.

2 The CDQ program has been in existence for 12 years,
3 please explain APICDA's long range transition plan and
4 investment strategy to create a self-sustaining fisheries
5 related economy in the APICDA region? What steps has APICDA
6 taken during their current allocation cycle, 2003, 2005, to
7 achieve this goal?

8 MR. KYLE: Mr. Commissioner, from -- I'll try
9 not to be redundant, but to answer the question as succinctly
10 as I can.

11 Our perspective of the CDQ program was and is, that
12 its purpose is to develop stable local economies based upon
13 the fishing industry in each of our member communities. To
14 accomplish that we determined, first of all, we needed to have
15 adequate infrastructure available in our communities that
16 could provide our communities with the means to access the

17 fishery resources that are available in the region around our
18 communities.

19 The infrastructure serves as a foundation, an anchor,
20 so to speak. As the infrastructure is developed, we come in
21 and we build a processing plant. With a processing plant, we
22 purchase vessels to augment the local fleet. We provide local
23 residents with the opportunities to access funds, to increase
24 the size of their vessels, to acquire gear, things that allow
25 them to participate in the fisheries.

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1 As those fisheries develop, other business
2 opportunities begin to develop to provide services that are
3 now necessary because the fishing industry exists within the
4 community. In that system, we begin to develop a stable local
5 economy. That's part one. That gets us to part one.

6 Part two is, we need to have the ability to acquire
7 additional fishing rights in the future as our fisheries
8 increasingly become rationalized. Particularly with the
9 advent and processor quota shares, it's vitally important that
10 our communities have access to money to be able to acquire
11 both harvesting and processing rights so that they can
12 continue to participate in the industry.

13 In that vein, we created our long term reserve
14 account, which is designed to reach ten million dollars and
15 serve as both a rainy day account in the event that we run
16 into trouble and need to access it, but also an account that
17 each year will kick out the amount that it earns over ten
18 million, back into APICDA as an annual dividend. So that
19 provides us with some financial stability down the road.

20 None of this works, however, unless we have adequate
21 human resources in the community. People who are trained in
22 the community to work and hold those jobs and manage those
23 operations.

24 In each of our current local businesses, they are run
25 by local residents, and the employees for almost all of those

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1 jobs are local employees.

2 Joe, am I missing anything?

3 MR. COTTER: Mr. Commissioner, yeah, the only
4 thing I would add is -- and I hope that we made the point in
5 our presentation, you know, we're not going to be self-
6 sustaining out there until we don't have to -- we need access
7 to capital, and that primarily comes through the royalties. I
8 don't think we can go outside to the commercial and get access
9 to capital to make the kind of infrastructure and business
10 investments we have to make out there. That means we're
11 relying on the CDQ.

12 At some point, you know, and it's only becoming clear
13 to us as we go on, that you know, we're really at the
14 beginning of a lot of this. I mean, as long as we've been in
15 Atka running that plant, you know, we're just now being able
16 to start looking at building redundant systems.

17 And we've been very lucky out there, we haven't had
18 major casualties over the years. We've been able to generate
19 positive cash flow, but you know, you can see we need a bigger
20 plant that can handle multi-species. We've got to do
21 something with the dock we've got out there. We've got to do

22 something to get our arms around the power cost.
23 Infrastructure. Infrastructure. Infrastructure. We're
24 operating at the end of the food chain and the costs are high,
25 and we've got to compete in a worldwide market that doesn't

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1 have those built in costs that we do.

2 MR. KYLE: There's one other thing that I
3 forgot to add and Joe didn't mention, but alluded to.

4 The way we've managed our money, is most of our effort
5 has gone into our communities. But you will note, as we
6 mentioned, we have investments in some outside vessels, five.
7 And those have all been profitable. And we need to make some
8 more investments in outside vessels because those operate as
9 true profit centers.

10 At a village level, you know, some of our operations
11 are marginal and probably they all will be marginal, at least
12 in the beginning. It takes time for them to mature, and we
13 can handle that as long as we have outside investments that
14 are profitable. But to acquire those outside investments we
15 either need to shift our financial focus from our communities
16 to the outside, or we need additional CDQ allocation to
17 generate royalty so that we can continue to expand our in
18 community program and have some available to expand a bit on
19 our outside investments.

20 MR. BLATCHFORD: Thank you. Madame Chair, you
21 may have answered all of the 12 questions that we have for
22 you, but we are going to follow our script. Okay?

23 MR. DAVIS: And, can I -- I have a follow-up
24 question based on the testimony.

25 MR. BLATCHFORD: Please. Yes.

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1 MR. DAVIS: You mentioned, and this is Mr.
2 Davis for the record. And this will be directed to Mr. Kyle
3 and Mr. Cotter because the testimony was split between you.

4 You referenced a business plan with the McDowell Group
5 on the appropriate sized processing plants, and if my memory
6 serves me, the loss with the CDQ quota was approximately
7 28,000. And the loss without the CDQ quota was approximately
8 211,000. Is that approximately the correct testimony?

9 MR. KYLE: Yes.

10 MR. COTTER: Yes.

11 MR. DAVIS: So, that -- and the question is,
12 given the present level of CDQ quota, is that is also based on
13 -- first of all, on the present level of CDQ quota?

14 MR. COTTER: The answer to that question --
15 and this is Mr. Cotter. The answer to that question is, yes
16 in the case of sablefish, and no in the case of king crab.
17 Our current king crab allocation is eight percent.

18 For the purposes of the pro forma, we assumed we would
19 get 14 percent. In our allocation request we asked for 18
20 percent.

21 MR. DAVIS: And in the -- was there a -- is
22 there a pro forma that would project when those type of small
23 plants might become self-sustainable without CDQ quota?

24 MR. COTTER: Joe, do you want to answer that?

25 MR. KYLE: Yeah. Mr. Commissioner, the pro

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1 formas that we have from the McDowell Group, you know, show a
2 five-year outreach plan. And it flips to profitable in year
3 two, as I recall?

4 MR. COTTER: Year two.

5 MR. KYLE: With the CDQ it flips to a positive
6 cash return in year two, but it -- no, we don't have it
7 flipping without CDQ coming in there. We don't have a pro
8 forma with that -- without CDQ.

9 MR. DAVIS: It wasn't clear to me. I'm just
10 asking for clarification.

11 MR. KYLE: Yeah.

12 MR. DAVIS: And then to follow-up with your
13 Atka Pride Seafood Plant expansion concept. You're doing
14 halibut only, correct?

15 MR. COTTER: Yes, Mr. Commissioner.

16 MR. DAVIS: So, now -- and what other species
17 would you expand to, if you could elaborate?

18 MR. COTTER: Well, Mr. Commissioner, I think
19 what we're looking at in Atka is, you know, halibut being the
20 core product, you know, it's a high value species and can
21 generate most of the basic cash you need for that type of
22 plant.

23 We've looked at the idea of cod before, but again,
24 it's a low value species, it requires a lot of activity
25 surrounding it that it will, you know, to prosecute it

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1 compared to halibut.

2 Sablefish is certainly something that's on our radar
3 scope to process, you know, it's simple to process. It's
4 another high value species. Most of what I think we're trying
5 to do in terms of diversifying that plant really is product
6 forms. We would like to ship less raw materials south and
7 more finished products.

8 MR. DAVIS: And the halibut you're processing
9 is IFQ?

10 MR. KYLE: CDQ, Mr. Commissioner. Primarily
11 CDQ, and a small amount of IFQ.

12 MR. DAVIS: And do you plans to use any of
13 your cash reserves to buy halibut IFQ?

14 MR. KYLE: Mr. Chairman, Mr. Commissioner, we
15 have been doing that, and yes, we intend to do it. We -- I
16 think it's well known on the CDQ team that we've used -- Atka
17 Pride Seafoods has made loans to local fishermen to buy IFQ
18 out in Area 4B, in addition to the APICDA program to buy IFQ
19 out in the Bering Sea. See, that plant itself has backed up
20 loans to its local fishermen, absent the APICDA IFQ programs.
21 So, we've got two avenues to -- for our local residents to buy
22 IFQ out there. We've used it.

23 MR. DAVIS: Okay. Thank you. That's all the
24 questions I have, sir. Thank you.

25 MR. COTTER: Could I add a little bit?

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1 MR. DAVIS: Sure.

2 MR. COTTER: The Atka Pride Seafoods really
3 operates from June until October, so when we're talking about
4 a new plant, we're also talking about a new small boat harbor
5 that then allows people to have a place to park their boat so

6 they can engage in fishing at other times during the course of
7 the year. A larger plant allows product from those other
8 times of the year to go into the plant, so it also begins to
9 provide year-around employment and economic activity in Atka.

10 MR. CASHEN: Mr. Krygier?

11 MR. KRYGIER: I guess this question is for
12 John. When you gave your presentation about the Atka Pride
13 Plant and you said you had some other ideas for other fish, I
14 don't remember your exact words, but a question for -- and Joe
15 just mentioned, you know, your thought of buying more IFQ, how
16 does sablefish fit in there? Because there are two groups of
17 sablefish that you can access out in there and one is the
18 state water, which is basically free with no cost. What are
19 your plans of doing it?

20 I mean, you have to compete, but it's right there on
21 your door step for sablefish being accessible. There's a
22 quota -- I can't remember when it was last year, but it's
23 probably 200,000 pounds of sablefish. It's one of the highest
24 value species out there. And I don't know how much IFQ
25 sablefish kind of comes on the market, but it's got to be some

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1 around certainly, and I'm just wondering how that fits into
2 your overall plan and approach for Atka Pride Seafood?

3 MR. MOLLER: Yeah, Mr. Krygier, Commissioner,
4 you know, I think the Aleutian Island sablefish is yet to be
5 fully developed. We deal with whales in the Aleutian Islands
6 just as we do in the Bering Sea, there is a few boats. And as
7 I mentioned during my presentation, one of our vessels we have
8 converted to fish longline pots.

9 And that said, you know, the cost to do business with
10 pots in the Aleutian Islands is incredibly expensive. The
11 year loss, the tides and the environment is just very
12 unfriendly. There is just a few vessels that are actually
13 prosecuting that fishery. I don't know if there is any fully
14 prosecuting it, but one of the things with the -- to answer
15 your question with regard to state water sablefish, and you
16 know, I think you're right, I think there was like 300,000
17 pounds of state water sablefish.

18 One of the things that -- is we have IFQ as Larry and
19 Joe have mentioned, as well as CDQ. And we have not, at this
20 point, however, we are ramping up to, you know, someday to
21 prosecute and harvest all of our CDQ and IFQ sablefish, and
22 with the idea that it goes to our plant in Atka.

23 The state water sablefish is not -- you cannot harvest
24 that if you have otherwise got a CDQ card and/or an IFQ card
25 for the vessel or the skipper. That is for folks that do not

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1 have access to other fish. However, there is a loophole in
2 that regulation that we do not take advantage of, that you
3 know, some folks just won't transfer or get their IFQ card for
4 sablefish through the federal system until they have already
5 fished out there -- have you know, fished the state water
6 fishery. We don't do that.

7 So, I mean, if it was unharvested -- I mean, and we
8 were harvesting all of ours, I mean, it only makes sense to go
9 out there and work on some of the state water fisheries.

10 Is there another part of the question I didn't answer

11 yet?

12 MR. KRYGIER: I think you gave me an overview
13 of what, you know, why you haven't approached it yet and --
14 but I think certainly to me, that seems to be something that
15 being located out there, that that would be an area you should
16 think about focusing on. Because I think there is some ways,
17 either with combination of maybe some of your crab boat
18 vessels, in the future, may give you an opportunity to not
19 have IFQ permit holders on board and use that same gear to go
20 ahead and focus on sablefish.

21 I don't know if you have thought of that, but it
22 certainly seems to me as a proper avenue for the Atka Pride
23 folks.

24 MR. MOLLER: Commissioner, Mr. Krygier, in
25 fact we have thought about that and in our 2006-2008 CDP, we
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1 are investigating vessels, if you will, that will help us
2 fully harvest the quota we currently have out in the Aleutian
3 Islands, and I think you're absolutely right. I think it's a
4 valuable resource, and I would just reiterate that it's an
5 incredibly difficult fishery to prosecute, and the learning
6 curve is real steep.

7 With that said, we continue to, you know, try to fully
8 participate in that fishery.

9 MR. KYLE: Commissioner, if I could just
10 supplement very briefly. One thing that, you know, we try to
11 prove up and move up, if you will, and we've been blessed with
12 a high IFQ -- or CDQ quota of halibut out in 4B the last five
13 or six years, as you know, and when we started our plant in
14 Atka, the IPAC quota was around 488,000 pounds for us. We
15 enjoyed the benefit of that quota riding up to over 900,000
16 pounds. We had our hands full harvesting the 900,000 and we
17 didn't really need to go look at the other species that make
18 the plant profitable for the fishermen stuff.

19 As you know, that quota is riding down dramatically
20 now, so we're looking at -- right now the staff recommendation
21 is 450,000 for calendar year '05. We're going to have an
22 necessity now, you know, we can swallow 450,000 pounds with
23 existing resources. We're going to have a necessity to have
24 to start looking now at the state water sablefish idea. And
25 it's really just a developmental maturation process and what
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1 the outside world dictates to us that we adapt to, and we're
2 going there. Now sooner than we maybe would have because of
3 the quota drop.

4 MR. KRYGIER: Let me do one more follow-up
5 because this is something that -- this is all in the same
6 context I guess, because Larry brought up the fact that
7 sometimes you depend on quota share, and all six of the groups
8 do look at that quota share as a way to jump-start projects
9 and get going into various new areas and new arenas. And you
10 know, just like the first -- I remember the first year we did
11 the CDQ -- or CDP's, and everybody asked for the full amount
12 of quota because everybody had use for it, so of all of the
13 six groups, everybody is asking for more because all the
14 groups have visions of different things that they consider
15 would be useful for projects and development within their

16 community and regions.

17 So, in cycling back with that concept, not everybody
18 is going to get everything they ask for. They can't because
19 there isn't that much on the table. I mean, there has to be
20 some give and take and balances.

21 So how do you, you know, if you don't get as much
22 quota to do some of the projection thing, are you then -- are
23 you going to try and keep most of those projects, or some of
24 them -- I guess I'm trying to ask, how do you balance this
25 out, for not getting everything you're asking for, to try to

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1 find some other mechanisms? And some of that may be some of
2 these things like we just talked about, switching gears and
3 looking, to still keep on track and keep going in the
4 community.

5 This is kind of a philosophical approach, but I'm
6 interested in your response.

7 MR. COTTER: Our priority has been from the
8 beginning, and our Board of Directors firmly is and will
9 continue to be our communities. So, our focus is going to be
10 on building the infrastructure and getting the businesses
11 going, applying the resources necessary to accomplish our goal
12 of stable local economies based upon the fishing industry.

13 Now, we have had to prioritize in the past and I'm
14 sure we will have to prioritize in the future, even if we got
15 everything we asked for, we are still going to have to
16 prioritize because things change.

17 And you know, as I mentioned in my comments and as
18 we've mentioned in the CDP, acquiring fishing rights is very
19 very important and so we would certainly, as we're looking at
20 plants in St. George and plants in False Pass, we would be
21 looking to acquire crab rights in other rights that we could
22 use in those communities.

23 We are in the process of nearing completion of a
24 proposed plan amendment to purchase an additional vessel,
25 large vessel, and that vessel, one of the things that makes it

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1 attractive is that it comes not just with crab, but it comes
2 with sablefish and it comes with a proven history of being
3 able to harvest sablefish in both the Bering Sea and Aleutian
4 Islands. That to us, is an example of an asset that we would
5 purchase that brings not only quota to the table, but the
6 capability to harvest either IFQ or CDQ that we have not been
7 able to develop on our own.

8 MR. KYLE: And just to conclude, Commissioner,
9 one of the things that concerns me is that obviously, you
10 know, we submit and CDP and we ask for what we want and what
11 we think we need and then we have to live with what we get.
12 That forces, you know, us to re-evaluate what we had -- would
13 like to do and look what we realistically can do.

14 One of the things that we're facing over the next
15 three years is the mandatory commitment of funds to
16 infrastructure, i.e., outfall lines and things like that,
17 we've got a major unknown in Atka this year. Our NMFS permit
18 situation has changed. That program is constantly evolving.
19 We have to construct an outfall line in Atka to continue to
20 operate. We don't know what the price tag is going to be, and

21 we're looking at bringing on False Pass and Nelson Lagoon and
22 St. George. St. George has an outfall. The other two, we've
23 got major infrastructure things out there and whatever you
24 give us -- we don't have any say so as to whether we commit
25 funds to those infrastructure projects. I mean, for the

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1 plants to operate, we've got to commit funds to there and that
2 limits our opportunity to do some of the things that Larry is
3 talking about and would like to do.

4 We may find ourselves using brick and mortar and --
5 and we may have to tap into that long range reserve account to
6 do any new -- be there, you know, quota -- the fishing rights
7 really. We're really talking about fishing rights, buying
8 more fishing rights.

9 MR. CASHEN: I've got, Madame Chair, some
10 questions on this Bering Pacific Seafoods or False Pass
11 operation. Now, there was an operation before which lost a
12 considerable amount of money, and so I've got some questions
13 on how this project is different in terms of the employment
14 benefits to the residents of False Pass or other APICDA
15 communities.

16 I've got questions regarding the deliveries made to
17 the plant, is that going to be -- I guess we should just ask
18 the questions one at a time in terms of the employment
19 benefits to the region from the processing plant.

20 MR. KYLE: Yeah, Mr. Commissioner, I think I
21 used the term two or three, maybe four times in the first part
22 of the presentation about right-sized coastal plants, and that
23 was the problem with BPS 1. BPS 2 is going to be right-sized
24 and you know, I simply used the McDowell Group to do a very
25 good business plan, a feasibility study first and incorporated

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1 the local residents into that document. We then used the
2 McDowell Group as a follow-up project to come up with a
3 business plan. And to a large degree the local residents were
4 incorporated in that. And I'm saying that because of their
5 expertise of what's out there, what can be caught, when it can
6 be caught and how much can we reasonably expect to buy, those
7 sorts of things.

8 I think the residents of False Pass would tell you at
9 BPS 1 we didn't do as good a job of assessing their strengths
10 and weaknesses, if you will, on what they can realistically
11 bring to the table. On BPS 2, we're doing that. And now that
12 we have that business plan and it was presented to the board a
13 couple of weeks ago up here, for the state meeting's one, the
14 plan is to take the McDowell Group business plan out to the
15 community on January the 9th. We've got myself and Johnny
16 Moller and our controller, Rob Smith, and our construction
17 manager Mark Irvis, we're all going out there to meet with the
18 community on a two-day session to utilize something that
19 evolved out of the management review we underwent. A dynamic
20 planning tool that we will sit down and, you know, go through
21 a very tedious process to answer the questions you're
22 answering, you know, how much fish can come in? When can it
23 come in? What species can come in to help us right-size the
24 project?

25 MR. CASHEN: So, in this right-sized project,

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1 how many residents will be employed? I mean, what does it
2 take to run the plant?

3 MR. COTTER: There's about 22 jobs.

4 MR. MOLLER: Yeah, 25 was the initial number.

5 MR. COTTER: Yeah, the McDowell business plan
6 showed 25. Now, I think when we get out there with the locals
7 that number is going to trip down. It may be the part of the
8 year it may operate with the eight to 12 people, and then in
9 high volume periods, 18 to 20. I mean, I'm speculating on
10 what we will find when we meet with the local folks.

11 MR. CASHEN: But we're talking about
12 deliveries for which type of species of fish?

13 MR. COTTER: We're talking about deliveries of
14 salmon, sockeye, and in particular silver salmon. And at the
15 end of the year when the other plants have closed down and
16 there are still runs that are available for harvest, so that
17 will add a shoulder season opportunity for local fishermen.
18 Red King Crab, Bristol Bay Red King Crab and sablefish, a
19 little bit of Dungeness. There's a potential for a Dungeness
20 fishery around there, it's not really well prosecuted, so we
21 think that's a new opportunity.

22 Those are the primary species.

23 MR. KYLE: And a wee bit of halibut.

24 MR. COTTER: And a wee bit of halibut.

25 MR. CASHEN: So, who will be making the

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1 deliveries? Will it be False Pass residents or will it be
2 fishermen from around the region, or will it be CDQ partners,
3 for example, delivering CDQ crab?

4 MR. KYLE: It will be a mixture, Greg. I
5 mean, like the Bering Sea Bristol Bay Red King Crab will
6 probably come from our vessel, the "Far West Leader".

7 MR. CASHEN: So, they would pull up?

8 MR. KYLE: Yeah. The "Far West Leader" would
9 bring the Red King Crab to the plant. Some of Johnny's
10 vessels might be bringing the Bering Sea sablefish to the
11 plant. What we've got to get -- and we were hoping that the
12 False Pass fishermen and some of their brethren in the
13 Aleutian's East Borough region will constitute the bulk of the
14 salmon deliveries. All right.

15 MR. CASHEN: Because that was an issue with
16 BPS 1, was some of the fishermen didn't want to leave Peter
17 Pan or Trident to come over to False Pass?

18 MR. KYLE: Yeah.

19 MR. CASHEN: So, have you addressed those
20 issues as well?

21 MR. KYLE: Well, I think that Larry was trying
22 to tell you that with the idea of shoulder seasons, I mean
23 we've really got just a wee bit of Red -- Red sockeyes,
24 sockeye salmon that would -- that I'd like to take to Peter
25 Pan and maybe we've got two gorillas out there in Peter Pan

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1 and Trident, competing for fish. We can't compete with them,
2 so the whole concept is to get a commitment from the locals,
3 what can we realistically get from you because we can't go out
4 head to head with the two big folks, you know, you've got to

5 tell us what you can really bring. Thereby comes the silvers
6 and shoulder season fish.

7 MR. COTTER: One thing we do not intend to do,
8 which we did before was to bid the price up, you know, the
9 last time around nobody would sell us fish unless we paid them
10 more for it than they could get from Peter Pan or Trident.
11 That was the price of getting some loyalty from them, and
12 we're not planning on doing that again. We're going to rely
13 upon folks to show some loyalty to this operation as well, and
14 part of the process that Joe and the others are going to go
15 through in False Pass is going to be to work through that and
16 help people understand that there is a two-way commitment on
17 this.

18 MR. CASHEN: Are you going to provide any
19 support services like ice or anything? Fuel? I know there is
20 a fuel issue in False Pass.

21 MR. KYLE: Right. Mr. Chairman, absolutely.
22 We've already got the ice house pre-positioned, you know, as a
23 carry over from BPS 1, but yeah, that's part of our plan.
24 That is to provide, you know, we're not going to start off
25 providing the same kind of support to the fleet that Trident

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1 does in Sand Point or Peter Pan does in King Cove, but that's
2 obviously got to be back-filled somehow.

3 We've got the local store in our barracks that Peter
4 Pan shut down and the local village corp took over, but at a
5 very nominal rate we let them move into our bunkhouse and re-
6 establish the store. So, we're working hand in hand with the
7 local community to make sure those essential support services
8 are present.

9 MR. CASHEN: Okay.

10 MR. COTTER: And one other thing I think is
11 going to be substantially different in False Pass. We're
12 going to have a harbor. Now, there will be a place for a boat
13 to come and tie up, and that is going to change the world
14 significantly. In the past that didn't exist, and once you've
15 got a home port then you begin to develop different type of
16 relationships.

17 MR. CASHEN: Okay. You said the feasibility
18 plan or the McDowell plan is going to come out in January?

19 MR. COTTER: It's done and it's available to
20 you as soon as you get back to Juneau.

21 MR. CASHEN: Okay. That would be great.

22 MR. KYLE: And I just want to caution you
23 though, that that plan is like, you know, is like we sent the
24 measurements back to New York for a suit to be built and they
25 build us a suit, and then we've got to take it out to the

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1 community and really size it. So, what we actually implement
2 will be a little bit varied from what the McDowell business
3 plan shows.

4 MR. CASHEN: Okay. Thank you.

5 MR. DAVIS: Well, let me follow up on that. I
6 noticed on the lodge issue in your CDP, I noted that the lodge
7 has had some losses in 2003, 2004, but it's in the black in
8 2004 now, and that was attributed to lack of transportation,
9 is that the primary reason?

10 MR. COTTER: Yes. Well, we expected the lodge
11 to lose money for the first three years. I think our goal was
12 -- it may have been year three, but I think it was probably
13 should have been year four for the lodge to start turning
14 around. It takes time to build a clientele and the lodge
15 business in Alaska is very very competitive, and there's a lot
16 of places that have better salmon fishing than the Nikolski.
17 So, there's got to be something special about Nikolski to get
18 folks to go out there. So, there's a marketing issue that
19 starts initially.

20 The problem we had in year one was that 50 percent of
21 our clients were unable to either make it to Dutch Harbor or
22 to make it from Dutch Harbor to Nikolski. So, we then went
23 and secured 1.5 million dollars in funds to the FAA for
24 improvements on the Nikolski airstrip, but those funds
25 unfortunately went into the wrong part of the FAA, not their

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1 AIP section. So, we went ahead and did a plan amendment and
2 spent \$150,000 to put in navigation aids, and that project is
3 now done. And what we now have to -- we're getting reimbursed
4 by the FAA incidently, for that 150, but we now have to get
5 approval by either the Air Force or the FAA for the new flight
6 path to go into Nikolski so that we can take advantage of what
7 we've got.

8 It's an ongoing problem. Anyway, this year we had one
9 group that did not make it in, the weather was good to us.
10 And stopping there, with just our normal clients, we would not
11 have operated in the black this year. We would have been 10
12 to \$15,000 in the red. A big improvement over last year, but
13 still in the red. What turned the corner for us is that there
14 are -- there's a big construction project, Denali Commission
15 stuff going on in Nikolski and we rented the lodge for \$20,000
16 a month for two months, in November and December, which was a
17 good rate for them, a substantial discount. But that moves us
18 into the black this year, and hopefully we'll be there again
19 next year without the construction.

20 MR. DAVIS: Okay. This is Mr. Davis. What I
21 asked though, the question for a business plan. Did the
22 business plan for the lodge foresee the need for those
23 navigational improvements? I mean, it seems like you built
24 the lodge before you did the improvements, so I'm trying to
25 get at your business plan strategies.

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1 MR. COTTER: The business plan recognized that
2 we needed to improve transportation access, and we started
3 working on that when we started to construct the lodge. And
4 it took us three years to get to 1.5 million dollars, so we're
5 behind schedule in dealing with the access issue, but that was
6 recognized in the beginning.

7 MR. DAVIS: Okay. Thank you.

8 MR. CASHEN: Okay. I'd like to move on. Mr.
9 Winegar? If you want to move onto the next question.

10 MR. WINEGAR: Yeah. The question I have
11 relates to public disclosure. How does APICDA feel about
12 public disclosure of compensation levels for key personnel?

13 MR. COTTER: Mr. Chairman, those should be
14 public, Form 990's that all non-profits are required, has a

15 place in there for salaries of key personnel. We get the Form
16 990's every year from all the groups. I don't know if they do
17 for us, but you know, we pay attention to what's in there and
18 the different groups fill them out differently. But from our
19 perspective, sure, no problem.

20 MR. DAVIS: Now, this is Mr. Davis for the
21 record. I'd like to ask you, Mr. Cotter and Mr. Kyle, what
22 would be your current and future plans for employment with
23 APICDA's harvesting and processing partners offshore?

24 MR. COTTER: Our personal plans?

25 MR. KYLE: No, our partners.

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1 MR. DAVIS: No, plans of APICDA.

2 MR. KYLE: Trident, Star.....

3 MR. DAVIS: I mean, with your processors and
4 partners, or CDQ partners. What do you -- do you have any
5 plans for employment for your region?

6 MR. COTTER: Yes. We -- well, we listened
7 carefully to Mr. O'Cleary's comments, first and foremost, and
8 you know, I agree with everything that Commissioner O'Cleary
9 said and you know, I think that really what he's offering is a
10 very meaningful way to provide CDQ groups with that little
11 extra muscle that they need to bring a point home with their
12 partners. And we welcome that, and you know, look forward to
13 -- one of the things I'm going to do this afternoon when we
14 leave is call our partners and initiate the steps to begin to
15 implement what Commissioner O'Cleary requested today.

16 MR. DAVIS: Well, let me ask the same
17 question, if I could, with regard to in region projects, that
18 is, do you have plans to try to hire local residents for in
19 region projects?

20 MR. KYLE: Mr. Chairman, I think that gets
21 lost in the mix. It's a great question. I mean, in region,
22 we do everything we humanly can to hire in region. And Atka
23 Pride Seafoods, our plant manager is an Atkan, our plant
24 engineer is an Atkan, you know, and Johnny Moller is the front
25 line supervisor for these folks. But all of our key

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1 management and worker positions at Atka Pride Seafoods are
2 Atkans. Occasionally we have to fly in some extra help from
3 the -- we try to go to our local communities for that.

4 Nelson Lagoon Storage Company, you know, the on site
5 manager is a Nelson Lagoon resident. The on site
6 administration is performed by the Nelson Lagoon Tribal
7 Council. False Pass, you know, when we were there before, you
8 know, we had the mayor as the assistant plant manager -- co-
9 plant manager I should say.

10 Everything we do in region just about has -- not even
11 just about, does have local folks running it. We spent a lot
12 of training education money getting them through, you know,
13 pipeline training to make sure they have the skills to do
14 those tasks. Johnny and the two folks that work for him who
15 are -- one's an Unalaska resident and one's a St. George
16 resident, and they spend an enormous time out in the
17 communities working with the local talent to insure their --
18 you know, have meaningful supervisory positions and the skills
19 to do it.

20 We're doing -- I think if you looked at -- if you
21 converted our employment picture to FTE's and looked at what
22 kind of money our FTE's are earning per position, you would
23 see that it's -- that there's real meaningful full-time
24 equivalent positions, and real meaningful full-time salaries
25 that are being paid out in the region to locals to manage and

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1 operate our in region businesses.

2 MR. DAVIS: Okay. And is that in region hire
3 a part of your business plan for these in region projects?

4 MR. KYLE: Well, yeah. Yes, Mr. Davis. In
5 fact that's -- in fact the McDowell report says, you guys
6 ain't going to make it unless you have in region hire. I
7 mean, we can't -- Johnny Moller, the success of his AVI
8 operation, APICDA vessels is very dependent upon us being able
9 to use in region residents rather than to hire folks in
10 Seattle and fly them to Anchorage and they lose their plane
11 ticket and their advance and they never show up and -- I mean,
12 if we can't use in region, we can't make it.

13 MR. DAVIS: Thank you.

14 MR. CASHEN: Thank you. Mr. Krygier?

15 MR. KRYGIER: As you all know, the Council,
16 the North Pacific Fishery Management Council passed crab
17 rationalization, and I would like you to just kind of give me
18 a little inside of how that has impacted your 2005 CDP and
19 your 2006 through 2008 CDP as far as what you plan to do?
20 Recognizing the fact that there is a couple of new species
21 that have been added, the Aleutian Gold Crab and the Aleutian
22 Island Red Crab, and the increase in the CDQ percentage has
23 gone up. So, how does that all fit together in your plans?

24 MR. COTTER: Commissioner, I will start with
25 the two new species first. This is Larry Cotter for the

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1 record.

2 My understanding of Adak Red Crab is, we may not see a
3 fishery for four or five years, but nevertheless, as we
4 commented earlier on our plans in Atka, we intend and our CDP
5 so states, to bring our Adak Red King Crab and our Aleutian
6 Brown Crab to Atka for processing. That begins to help make
7 that plant work.

8 So, that's what we would intend to do with our CDQ
9 there. Crab rationalization, you know, we supported processor
10 quota shares and, you know, that was a difficult thing to
11 support. What we got out of it was very important to St.
12 George in particular. We did not take care of False Pass with
13 crab rationalization because there was virtually little to no
14 history, processor history in False Pass. Some, but little to
15 know. But St. George we protected with the Northern region.

16 As I mentioned earlier, we're very concerned that crab
17 rationalization has inadvertently put St. George and St. Paul
18 in a position where they are competing against one another,
19 and if one -- if one community wins entirely, the other
20 community is gone. And in this case, the other community is
21 St. George because the only hope they have for a future, in my
22 opinion, is if they have a -- develop a processing sector and
23 a fishing industry. And the key to making any and all of that
24 work is crab.

25 So, you know, one, we must build our plant in St.
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1 George if that community is going to survive. Two, we then
2 need to structure that plant so that we can play in crab
3 rationalization. And the way we're structuring the operation
4 is APICDA will own the plant, and we're going to request an
5 EDA grant of 50 percent, and we expect the plant construction
6 to cost 4 million, we'll put two in. EDA, we believe is going
7 to put the other two in. APICDA will then lease the plant to
8 a joint venture company, owned 50 percent by APICDA Joint
9 Ventures, our for profit, and 50 percent by Snow Pack. And
10 that company, we'll call it St. George processing, will then
11 operate that facility.

12 The facility for crab is going to operate as a custom
13 processing facility. All of our CDQ opilio will be committed
14 to St. George. All of Snow Pack's processor quota shares will
15 be committed to St. George for at least ten years into the
16 future. We're going to charge a custom processing fee to both
17 of us that is sufficient to cover our cost of operation and
18 maintenance.

19 Peter Pan Seafoods has some processor quota share that
20 is allocated to St. George. We expect -- we asked them if
21 they would participate in the joint venture, they declined.
22 We expect that as soon as possible, which would be '08, I
23 believe, they will move their crab out of St. George to St.
24 Paul. So, we're going to lose that.

25 What we're also going to do though, is we're going to
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1 work with the fishermen, the crab fishermen to see if we can
2 induce them to deliver their ten percent B shares to St.
3 George for custom processing. And after commencing in '08,
4 we're hoping to convince other companies that have floating
5 operations, and they may want to retire their vessel to move
6 their crab into St. George for custom processing.

7 But in long term, if you look at our budget, you'll
8 see that there's one consistent expenditure in our proposed
9 budgets for '06 through '08, and that's two million dollars a
10 year to purchase crab shares, because that is the only way
11 that we can protect St. George in the future.

12 Take a look at False Pass, you know, crab is an
13 opportunity for False Pass. King Crab begins to make BPS
14 work. Certainly we'd like down the road, you know, to access
15 other crab, the B shares, but that remains to be seen.

16 MR. KRYGIER: A quick follow-up on that. You
17 may or may not know that for the red crab, there's actually
18 two components of red crab in the Aleutian Islands. One of
19 them, we specifically set aside for small vessels, and it's
20 going to have to be accessed through the Board of Fisheries,
21 so if you're not aware of that you need to think about it.
22 The Board is meeting in February.

23 MR. CASHEN: Thank you, Mr. Cotter. Mr.
24 Clough, do you want to take the next one?

25 MR. CLOUGH: Thanks, Greg, Larry. Please

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1 explain APICDA's allocation justification in requesting an
2 increase in P-cod from 15 to 19 percent, based on active and
3 proposed projects for the 2006-2008 allocation cycle? In

4 other words, how are you going to use this quota?

5 MR. COTTER: Well, APICDA invested in -- or
6 APICDA Joint Venture, a for profit sub, invested in the "Ocean
7 Prowler" and the "Prowler" back in, I think 1997, and maybe
8 even earlier, and then the "Prowler" subsequently purchased
9 the "Bering Prowler". So, we have an investment in those
10 three vessels. Initially it was 25 percent. Coastal Villages
11 Resources Fund requested to buy in and the partners agreed and
12 we reduced our ownership respectively by five percent, so that
13 each of us now own 20 percent.

14 Our cod would be harvested by those three vessels, and
15 you know, last year those vessels did not take 100 percent of
16 their quota, this year they have or they will very shortly,
17 and they have the capability to take additional quota in the
18 future. Those vessels have been very profitable to us and
19 provide, you know, a good return that helps us fund our other
20 activities.

21 We don't need, at this time, P-cod as raw material for
22 our -- or P-cod CDQ as raw material for our plants because
23 that's otherwise available through, you know, the existing
24 open access fisheries. Down the road, if that changes, we
25 reserve the right in our contract with "Prowler" and "Ocean
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1 Prowler" to move whatever cod we need from those vessels to
2 support community operations.

3 MR. CASHEN: Mr. Clough?

4 MR. CLOUGH: If I could just follow-up. You
5 know, this gets along the whole line of the offshore element
6 of being kind of the profitable profit center right now, why
7 are you not trying to acquire a greater interest in these
8 vessels if they are, you know, a good profit center for you?

9 MR. COTTER: Well, you know, I think that in
10 the case of the three "Prowler" vessels, there's probably four
11 partners that would -- that would buy 20 percent if it was
12 available at a reasonable rate.

13 And in terms of investing in other longline catcher
14 processors, you know, we have a good relationship with our
15 current partners, we don't -- if we're faced with a choice,
16 our choice is back to our communities. We only have limited
17 resources and we don't need to expand our -- we don't have the
18 resources to expand in that sector at this time.

19 MR. KYLE: If I could add, Mr. Commissioner,
20 the, you know, it's sort of along Commissioner O'Cleary's
21 comments. I mean, one of the reasons we selected -- and it's
22 still our position -- whenever possible, we would select an
23 Alaska based company to partner up with, and the Prowler
24 Fisheries group is Alaska based, you know, out of Petersburg.
25 That group of owners, including us, you know, that has some

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1 expansion plans in the cod fishery. I'm still on that board
2 of directors, I mean they would like to buy a fourth boat,
3 they'd like to -- part of their goal is to have a vessel that
4 is exclusively dedicated to harvesting CDQ cod.

5 Right now, you know, for reasons that are very well
6 known, the partnership isn't functioning as a efficiently as
7 you would like to see a partnership function. So, we're just
8 in kind of a shaking out period here before we move forward,

9 but I know the principle owners of the Prowler Fisheries group
10 are very interested in expanding the market penetration, if
11 you will, of Prowler Fisheries.

12 MR. CLOUGH: I'm sure that the question of
13 offshore versus, you know, for purely profit versus onshore
14 investments, your job occupies a considerable amount of your
15 time, you know, as it should, but it's obviously a chicken and
16 egg kind of thing.

17 MR. KYLE: Commissioner, if I could add
18 something to that. Another part of that, and I think you
19 heard Commissioner O'Cleary say, you know, his vision is that
20 one day Alaskans are captaining and managing vessels that are
21 operating in the Bering Sea. Johnny Moller spent 18 months?

22 MR. MOLLER: Almost two years.

23 MR. KYLE: Almost two years as an intern with
24 Prowler Fisheries and he went to sea on everyone of their
25 vessels, spent time in the Petersburg office, our long range

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1 plan is that we would own Prowler Fisheries one day. And the
2 current ownership, that was kind of the principle of which we
3 bought in, is when those gentlemen are ready to retire and
4 play golf for the rest of their life or whatever, we would
5 assume that the major share of ownership in those vessels.

6 A freezer longliner cod boat is something we have the
7 in-house talent with right now to own and operate totally
8 within the APICDA region. There are residents that have
9 fished those boats. Again, you know, if I were God we would
10 be buying those boats and Johnny Moller would replace Johnny
11 Winther, you know, as the managing partner and owner of those
12 three vessels. That's why we want to go there. We can take
13 those over.

14 MR. CASHEN: How many residents are employed
15 on the Prowler vessels from APICDA at this time?

16 MR. COTTER: I think you know, it varies, but
17 there may be two or three. You know, I mean, that's a good
18 thing to -- if I can just expand just for a second.

19 You'll find that most of our residents are not
20 employed, you know, on at sea vessels. You know, we've got
21 six people from Atka I think, this time that are going out on
22 the "Starbound" and you know, Atka really does that every
23 year, several people to the "Starbound", but by in large, you
24 know, our folks are interested in jobs in their communities.
25 And you know, they put pressure on us then to do what we've

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1 been doing, build what we're building in our communities and
2 help them get into those fisheries. We do have some folks
3 that go out.

4 MR. MOLLER: Yeah, Commissioner, Mr. Cashen, I
5 would just add to that. I mean, one of the trips on one of
6 the vessels that I sailed on, you know, on that particular
7 trip there were two people from St. George and one from
8 Atkutan, plus myself. So, you know, you have your moments
9 when -- and we're talking relatively small crews. We're
10 talking, you know, 13 processors and maybe 20 folks on the
11 vessel overall, so you know, I think that there's a fair
12 percentage of our residents, at any given time on those three
13 boats, and obviously it varies and stuff.

14 In mentioned to the Commissioner of Labor earlier,
15 Greg, about you know, the subsistence lifestyle and you know,
16 our folks also take advantage of that and so, you know, at any
17 given time you'll see quite a few of our residents on those
18 longliners.

19 MR. BLATCHFORD: Yeah. Earlier in your
20 presentation, Johnny, I think you mentioned the hiring of
21 people from outside the region. I think you mentioned, was it
22 Russian Villages?

23 MR. CASHEN: Russian Mission?

24 MR. MOLLER: The Russian Mission, yeah.
25 Commissioner, we've had a couple of deck hands from Grayling,
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1 even prior to Grayling becoming a CDQ community, you know, for
2 the past, you know, all of six years. We've also hired some
3 folks in Unalakleet and a couple.....

4 MR. CASHEN: That's on "Starbound"? Not to
5 interrupt, but "Starbound" or "Prowler"?

6 MR. MOLLER: Oh, oh, I'm sorry, Commissioner.
7 I think, on both vessels.

8 MR. CASHEN: Okay.

9 MR. MOLLER: On "Prowler" there was some folks
10 sailing from Norton Sound CDQ communities when I was on the
11 boat. I thought you were referring to our local smaller
12 vessels that are fishing out of the community.

13 MR. BLATCHFORD: Well, my interest is just
14 what efforts are being made to hire Alaskans, even if they are
15 from the adjacent regions, so.....

16 MR. MOLLER: Yeah, Commissioner, if I could.
17 APICDA's policy is, in terms of hiring for vessels it controls
18 and you know, we certainly pass this onto our partners, is you
19 know, we start in region, obviously, with our communities.
20 From there we offer -- we have positions open to the other CDQ
21 groups, from there it's the state of Alaska, and the last
22 resort is going outside of the state of Alaska.

23 MR. COTTER: Commissioner, we also send job
24 announcements to all the other CDQ groups every time we have
25 one.

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1 MR. KYLE: And the last thing, if I may just
2 add, Mr. Commissioner. You know, I, once every year or two
3 ride the "Prowler" boats from Seattle up to Juneau or
4 wherever, and the last trip I made was a year and a half ago
5 and there was a gentleman from Akutan, one of the McGlashen's
6 -- Tom McGlashen, you know, he's been sailing with the
7 "Prowler" boats for a long time, but he tends to make three or
8 four trips a year, not all seven or eight. And you can tell
9 by just watching, he's you know, a tremendous heave-around.
10 And he was like in the third position on the boat, you know,
11 and the owner Johnny Winther will say, you know, anytime he's
12 ready to commit and stay for a full season we'll move him up
13 another level, he's got it, you know, and he goes back and
14 does some other things part of the year, but the talent is
15 there. It's just going to require a little bit different
16 lifestyle change on their part, but I think that's coming as
17 we acquire more ownership.

18 MR. CASHEN: Thank you. We've got about four

19 more questions here, and we're coming up to approaching an
20 hour, so if we could maybe speed it up a little bit if
21 possible. Mr. Jones?

22 MR. JONES: In 2002 the Council recommended an
23 allowance for 20 percent of the annual pollock CDQ royalties
24 that may be spent on in region sustainable non-fisheries
25 related economic development projects. What are APICDA's

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1 plan, if any, for this allowance, and how will this allowance
2 benefit your communities?

3 MR. COTTER: At this point in time we are --
4 we have our hands still completely full with fishery related
5 business activities.

6 MR. DAVIS: Yeah. Let me ask the next
7 question. If you could, we'd like an explanation of APICDA's
8 long term investment strategy and transition plans towards
9 self sufficiency?

10 MR. COTTER: Wasn't that question asked
11 earlier?

12 MR. DAVIS: Yeah, but we'd like to -- we would
13 like kind of a business plan analysis. When we read your CDP
14 it didn't quite come through.

15 MR. COTTER: Okay.

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MR. KYLE: Mr. Chairman, while Larry is
thinking. You know, I mean, we're kind of contemplating that
everybody that's participating in the Bering Sea Fisheries is
getting memorialized into the fishery through rationalization
plans, and I don't see the CDQ communities as being any
different than the at-sea processor fleet from Seattle or the
head and gut flounder fleet from Seattle, or the shore-based
processors from Seattle, who are being given access rights to
the resources of the Bering Sea from the CDQ groups. And so,
I would be shocked and disappointed if we were ever not in a

1 position to have access rights to the resources of the Bering
2 Sea just like everybody in Seattle is getting through the
3 Council program.

4 That's my short answer.

5 MR. DAVIS: That's fine.

6 MR. COTTER: Well, my other answer is as short
7 as I can make it. Our goal is that our investments in our
8 communities will be operating on a self-sustaining basis.
9 They will be operating like Atka Pride Seafoods, sufficient to
10 pay their costs, generate, you know, little to a modest
11 profit.

12 On the other side of the coin, we'll be invested in
13 other non-local fishery related profit centers. Other
14 businesses, the Prowlers and that type of thing that will
15 provide additional revenues that you know, will help APICDA to
16 support it's ongoing operations.

17 MR. DAVIS: And is the goal to use the profit
18 centers to support the in region projects that provide more
19 local hire?

20 MR. COTTER: Yes, sir.

21 MR. CASHEN: Thank you. I think we're on 9,
22 and Al, do you want to take that one?

23 MR. CLOUGH: Could you please summarize new

24 projects contained in the 2006-2008 allocation cycle?

25 MR. COTTER: Sure.

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1 MR. CLOUGH: Which we somewhat did earlier on.

2 MR. COTTER: The new projects essentially
3 consist of a combination of infrastructure, such as docks and
4 harbor, in a community coupled with construction of seafood
5 processing plants where they don't currently exist. And a new
6 plant in the case of Atka, and the formation of businesses in
7 the communities that provide services that will be necessary
8 to support the businesses that are developed.

9 MR. CASHEN: Okay. Mr. Krygier, I think we
10 may have covered the crab.

11 MR. KRYGIER: Covered the crab, but we can ask
12 about flatfish.

13 MR. CASHEN: Okay. Do you want to take it?

14 MR. KRYGIER: You went over a little bit on
15 your flatfish fishery in your presentation, but I'm wondering
16 about kind of the relationship with your partner, where you
17 see this going? We've got the IRIU that's gone through the
18 Council and et cetera, how does your long term -- where do you
19 see you're going to go with flatfish and maybe the species
20 you're going to target on?

21 MR. COTTER: Our partner, Sea Fisher Cascade
22 is really the only partner that we have that we are not co-
23 invested with. And you know, that's really because a large
24 part of their business is derived from the flatfish fisheries.
25 Those fisheries are under assault from the environmental

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1 community because of their potential or theoretical impact
2 upon the bottom, or because of the discard, the amount of
3 discard associated with their harvest. We have viewed that as
4 a dangerous sector to invest in.

5 As I look down the road, I am thrilled at the prospect
6 of rationalization and the non-pollock round fish fleet,
7 particularly in the flatfish and Atka mackerel sector. I
8 believe that that will provide the opportunity for that fleet
9 to modernize their vessels and also to practice the type of
10 fishing techniques that we now know can be practiced as a
11 result of our CDQ, to address at least the discard waste issue
12 associated with those fisheries.

13 There are good flatfish markets in the world and it
14 may be that when rationalization comes, it would be
15 appropriate for us to consider investing with the Sea Fisher.

16 The flip side of the coin is virtually no flatfish in
17 the Bering Sea is processed shoreside, although attempts have
18 been made to do so in the past. We have expressed interest in
19 doing that at different times, but it's a difficult thing to
20 do because of catch rates and waste and that type of thing,
21 but chief among the problems that we have, this stops us
22 before we would even begin to contemplate it, are the rules
23 that apply to CDQ groups in terms of observer requirements.

24 We, unlike the rest of the groundfish industry, where
25 you know, if you process less than a half million pounds of

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1 groundfish product a month, you don't need to have an
2 observer, processed between a half million and a million, it's

3 graduated levels. For CDQ, if you process one pound of
4 groundfish that is harvested by a vessel greater than 60 feet,
5 you're required to have an observer at the plant, that kills
6 any opportunity that we would have economically to try and
7 develop that fishery.

8 MR. CASHEN: Thank you. Ms. Leamer, do you
9 want to take the last question, number 12?

10 MS. LEAMER: Please describe briefly, or
11 briefly describe APICDA's in region programs that provide
12 benefits to the APICDA residents?

13 MR. CASHEN: Like education, training
14 programs, that type of thing. We may have already touched on
15 that as well.

16 MR. BLATCHFORD: But we are going to follow
17 our script. (Laughter)

18 MR. COTTER: Commissioner, we have a higher
19 education scholarship program that provides annual
20 scholarships of \$5,000 per person, providing they have a 2.0,
21 a minimum of 2.0 and attend school full time. We have a
22 supplemental education scholarship program that provides up to
23 \$3,000 per person per year, for them to engage in Voc-Ed or
24 other training related to the fishing industry.

25 We have a school grant program where we've applied
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1 \$6,000 per year to each of the communities. We have an active
2 recruitment program that goes on, directed by our human
3 resources director to identify folks to fill jobs in our -- in
4 all of our areas.

5 And we will shortly be announcing a new initiative
6 with our partners, Starbound partnership and Trident Seafoods
7 to commence an immediate effort to hire Alaskans.

8 MR. KYLE: And Mr. Commissioner, just to
9 finish that off. When APICDA began the board set \$300,000 a
10 year as an annual contribution to this program that has
11 subsequently been raised to half a million dollars. It's part
12 of our annual budget cycle. We put \$500,000 on the table for
13 higher education, Voc-Ed and you know, as Commissioner
14 O'Cleary was talking about, giving people the skills to assume
15 positions of greater responsibility. We routinely send
16 residents through the operator of uninspected passenger
17 vessel, Coast Guard course, MC courses, quality control
18 courses, hassup (ph) training.

19 We dedicate at least \$500,000 a year towards the
20 purpose of that, and we use it.

21 MR. CASHEN: Okay. Thank you. Commissioner,
22 do you have any further questions, or any member of the teams.

23 MR. BLATCHFORD: I have no further questions,
24 but just a comment though. I've been impressed with this
25 federal/state program for -- since it's -- since about after
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1 the first year of operation, and it's a very very successful
2 program. Very successful. I think that the people who
3 conceived the idea back in the 1980's, you know, would be very
4 very pleased at the direction it has taken and the potential
5 for what could happen in Bering Sea and the North Pacific, and
6 the impact, positive impacts it will have on local
7 populations. So, I think that APICDA, along with the five

8 other groups, have done a very good job in meeting what we see
9 as the intent and goals and objectives of the program. And
10 what we're trying to do is make it a much better program and
11 we're striving to do that.

12 MR. CASHEN: Thank you, Commissioner. Did you
13 have something?

14 MR. COTTER: I would just say, and
15 Commissioner, we probably wouldn't be here today if it wasn't
16 for you. You were one of those that came through at the time
17 when it was needed to make this happen. So, thank you.

18 MR. CASHEN: Okay. Thank you. And this
19 concludes the public portion of our expanded public hearing.
20 I would like to take a five minute break and we're going to go
21 into Executive Session for -- we have to vote on that. Shall
22 we vote?

23 MR. BLATCHFORD: Let's go off record.

24 MR. CASHEN: Okay. So, we'll take a five
25 minute break. Thank you.

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1 (Off record)

2 (On record)

3 MR. CASHEN: Back on the record. We have
4 Chris Poag with the Department of Law with us, and he's going
5 to explain the procedure for Executive Session. Mr. Poag.

6 MR. POAG: I've provide legal advice to Mr.
7 Cashen and the CDQ team, and as the groups know, this year
8 there's been a change. The Open Meetings Act has been found
9 to be applicable to these meetings, as a result, everything
10 has to be done on the record with the exception of limited
11 areas that can be discussed in Executive Session. Those are
12 in the Statute, it's 44.62.310(c), 1 through 4.

13 Today we're going to move -- Mr. Cashen is going to
14 move to convene in Executive Session for two areas, and those
15 are C3 and C4. Those protect areas that are under state law,
16 which in this case, is Alaska Constitutional privacy, that's
17 Article I, Section 22, allows for non-disclosure to the public
18 of the information that is proprietary, highly proprietary in
19 nature, is protected by our Constitution for privacy. It's
20 commercial privacy.

21 There are a number of cases that define the exposure
22 in the ares that are covered by that privacy. We believe that
23 two areas today will be covered in that section, and that will
24 be business plans for APICDA in the future and/or royalty
25 rates. Those are information which if the public were to be

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1 exposed to could be detrimental to this particular non-profit
2 CDQ Group.

3 So, as a result of that, Mr. Cashen is going to move
4 to convene in Executive Session if the team as a whole, a
5 quorum votes in favor of convening in Executive Session, then
6 the members of the public will be asked to leave. We will ask
7 APICDA to decide who they wish to be present in their
8 Executive Session that aren't members of the CDQ team,
9 including myself, I'm not a member, so you would have to ask
10 for my participation if you wanted me here as well.

11 And I would like to also have you state for the record
12 who those people are that you have invited to attend that

13 aren't members of the team, because you're volunteering this
14 information to be exposed to them and we can't protect what
15 you expose to them.

16 Are there any questions about this procedure?

17 MR. COTTER: No, sir.

18 MR. POAG: Okay. It's a formality. I'm
19 apologizing that it has to go through this process. If we
20 don't, then the things we do today may be subject to challenge
21 and we don't want that to happen. Okay.

22 MR. CASHEN: Okay. Thank you, Mr. Poag. So,
23 I would like to make a motion to the CDQ team to go into
24 Executive Session for this specific matters that Mr. Poag
25 discussed.

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1 (Motion Passed)

2 MR. BLATCHFORD: Okay. Being no nays, the
3 team will go into Executive Session.

4 MR. CASHEN: Okay. Thank you.

5 MR. COTTER: I would request that Mr. Poag
6 remain, and Mr. Kyle and Ms. Shellikoff and Mr. Dushkin.

7 MR. CASHEN: Okay.

8 (CDQ TEAM GOES INTO EXECUTIVE SESSION FOR 45 MINUTES)

9 MR. CASHEN: I would like to conclude
10 Executive Session and go off record.

11 MR. COTTER: And we would just like to say
12 thank you.

13 MR. CASHEN: Okay. Thank you very much.

14 MR. POAG: Just a final comment. While we
15 were in Executive Session, nobody else came in or out of the
16 room. Only the subjects that we discussed were the subjects
17 that we noticed. Those being in proprietary in nature
18 regarding business plans and royalty rates. No official
19 action took place in Executive Session. In fact, no action
20 took place in Executive Session.

21 MR. CASHEN: Thank you.

22 (Off record)

23

24 * * * END OF PROCEEDINGS * * *

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1 C E R T I F I C A T E

2 UNITED STATES OF AMERICA)

3) s.

4 STATE OF ALASKA)

5 I, Jerri Young, Notary Public in and for the State of
6 Alaska and Reporter with Metro Court Reporting, do hereby
7 certify:

8 THAT the foregoing pages numbered 02 through 97
9 contain a full, true and correct transcript of the Public
10 Hearing before the Department of Commerce Community and
11 Economic Development, CDQ Program Committee, was taken by
12 Janice Scott and transcribed by Janice Scott.

13 THAT the Transcript has been prepared at the request
14 of The State of Alaska, Department of Commerce, CDQ Program,
15 Juneau, Alaska.

16 DATED at Anchorage, Alaska this 3rd day of March,
17 2005.

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SIGNED AND CERTIFIED BY:

Jerri Young
Notary Public in and for Alaska
My Commission Expires: 11-03-07