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STATE OF ALASKA DEPARTMENT OF COMMERCE  
COMMUNITY AND ECONOMIC DEVELOPMENT  
PUBLIC HEARING

Anchorage, Alaska

In Re: )  
 )  
2006 - 2008 Community )  
Development Plan -- CBSFA )  
\_\_\_\_\_ )

TRANSCRIPT OF PROCEEDINGS

CENTRAL BERING SEA FISHERMEN'S ASSOCIATION

Anchorage, Alaska  
Legislative Information Office  
716 West Fourth Avenue,  
Suite 550  
Anchorage, Alaska 99501  
December 17, 2004  
1:00 p.m.

APPEARANCES, State CDQ Team Members:

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Commissioner of Alaska Department of Commerce,  
Community and Economic Development  
Juneau, Alaska

**GREG CASHEN**  
CDQ Program Manager  
Juneau, Alaska

**EARL KRYGIER**  
Alaska Department of Fish and Game,  
Extended Jurisdiction  
Anchorage, Alaska

**MARK DAVIS**

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Director, Banking, Securities and Corporations  
Anchorage, Alaska

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**MIKE BLACK**  
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**LAIRD JONES**  
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State of Alaska, Department of Law  
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Juneau, Alaska

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P R O C E E D I N G S

(On record)

MR. CASHEN: On record. We're on the record.

MR. BLATCHFORD: Want me to start?

MR. CASHEN: Sure. Commissioners?

MR. BLATCHFORD: Thank you very much. We're going to run this the way we've run all the CBSFA presentations. Greg Cashen will moderate. Then we'll go into questions. We'll take a break after you have presentation, then come back and we'll go into questions. We've prepared questions for the CDQ group and then right after that, we take another break and then we go into executive session and you can disclose whatever information you wish to disclose to us.

Okay. And then Mr. Cashen here will moderate and I think you know everybody here except.....

MR. MELOVIDOV: We can re-introduce everybody?

MR. CASHEN: Sure.

MR. BLATCHFORD: Okay. Let's start with Mike Black. Mike?

MR. BLACK: I'm director of the Division of Community Advocacy.

MR. DAVIS: My name is Mark Davis. I'm the

1 director of Banking, Securities and Corporations.

2 MR. POAG: Chris Poag. I'm with the Department  
3 of Law.

4 MR. BLATCHFORD: And Chris is not a member of  
5 the CDQ team, he just advises us. Okay? And then I'm Edgar  
6 Blatchford.

7 MR. CASHEN: Greg Cashen, CDQ program manager.

8 MR. JONES: Laird Jones, CDQ specialist.

9 MR. KRYGIER: Earl Krygier, Alaska Department  
10 of Fish and Game, Extended Jurisdiction.

11 MS. LEAMER: Lola Leamer, CDQ program auditor.

12 MR. CASHEN: Okay.

13 MR. BLATCHFORD: Greg, your show.

14 MR. CASHEN: Thank you, Commissioner. The  
15 first hour, as the Commissioner stated, is for CBSFA's  
16 presentation and so if you'd like to begin with your  
17 presentation, you may do so.

18 MR. LESTENKOF: Okay. I'll begin with a.....

19 UNIDENTIFIED MALE SPEAKER: Would you like us  
20 to introduce ourselves first?

21 MR. CASHEN: Sure, that'd be great.

22 MR. LESTENKOF: .....our name for the record.

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1 My name is Phillip Lestenkof. I'm the president of Central  
2 Bering Sea Fishermen's Association with the CDQ group  
3 representing St. Paul Island and since we'll be talking about  
4 fishing, I'm also a local fisherman at St. Paul Island, been  
5 commercial fishing for about 23 years since St. Paul Island  
6 developed the commercial fishery after the phase-out of the  
7 commercial Northern Fur Seal harvest and I just thought I'd  
8 get you to know me a little better.

9 MR. MINOR: Hi, I'm Steve Minor. I am the  
10 general manager of MSDH, the multi-species development  
11 harvest. It's a wholly-owned subsidiary of CBSFA that's  
12 charged with particular projects we'll talk about today. I've  
13 worked with CBSFA since 1999 and the Bering Sea Opilio Snow  
14 Crab crash.

15 MR. THORPE: And my name is Jonathan Thorpe.  
16 I'm the chief financial officer for CBSFA. I have been an  
17 employee for about a year now and been working with CBSFA for  
18 about -- in total, about almost 2-1/2 years now.

19 MR. MELOVIDOV: Yeah, my name is Myron  
20 Melovidov. I'm the chairman of the board for Central Bering  
21 Sea Fishermen's Association and also a commercial fisherman  
22 and been a fisherman for many years, since the program started

1 back in 1983. I own a 32-foot long line vessel and also a  
2 duly elected mayor for the City of St. Paul.

3 MR. LESTENKOF: Okay. We got a slide  
4 presentation. Some of these slides we.....

5 MR. CASHEN: Would you like the lights out?

6 MR. LESTENKOF: Sure.

7 UNIDENTIFIED MALE SPEAKER: Yes.

8 MR. LESTENKOF: Or -- oh, I can't read that.  
9 (Indiscernible - simultaneous speaking).

10 UNIDENTIFIED MALE SPEAKER: What happened to  
11 those lamps? They (indiscernible - simultaneous speaking).

12 UNIDENTIFIED MALE SPEAKER: Can try to find you  
13 a lamp if that's what you'd like.

14 MR. LESTENKOF: Well, I think I'll -- I could  
15 give it a try. I think -- I got most of it up in my head.

16 MS. LEAMER: Well, just make it up as you go  
17 along.

18 MR. LESTENKOF: But I think.....

19 MS. LEAMER: That's what we always do.

20 MR. DAVIS: Do you want to take a quick break  
21 to find a lamp? Let's go off record.

22 MR. LESTENKOF: That would be great.

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1 MR. DAVIS: Okay. Let's go off record.

2 (Off record

3 (On record)

4 MR. CASHEN: We're back on the record. We're  
5 on the record.

6 MR. LESTENKOF: Yeah, I forgot to mention  
7 behind me here over here is Rena Kudrin. She's a board of  
8 director of CBSFA and her husband's also one of our local  
9 fisherman and back here is Patience Mercurief. She's the  
10 president of one of our subsidiaries, Central Bering Sea  
11 Fishermen's Corporation and she also does quota management  
12 work for CBSFA.

13 As I was saying earlier, some of these slides, we  
14 used -- showed at the last public hearing but we're using them  
15 again because they're an important part of our 2006 to 2008  
16 CDP application and, basically, we consider this our cover  
17 slide. It shows part of the Village of St. Paul Island at the  
18 top and the second picture down is construction in St. Paul  
19 Harbor this summer working the harbor -- St. Paul Harbor's  
20 improvements projects and three of our local vessels -- I'll  
21 go into them later -- and three of our vessels that CBSFA  
22 invested in in the last couple years. CBSFA vessel gear and

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1 right, 32-footer, is actually Myron Melovidov over here, his  
2 vessel and this shows local fishermen delivering their catch  
3 at St. Paul Island for processing, and this photo was taken  
4 back in better days when the halibut were more abundant in  
5 Area 4-C, the fishing vessel WIND DANCER's crew. The girl up  
6 there or Simeon's daughter, is trying to get the gonads out of  
7 the big halibut there.

8 MR. CASHEN: How big was that?

9 MR. LESTENKOF: I don't know, it looks like a  
10 about seven-footer maybe, about there, but she's a pretty  
11 small girl.

12 MR. CASHEN: Uh-huh (affirmative). 250, 300  
13 pounds?

14 MR. LESTENKOF: And they're gutting and --  
15 gutting halibut and down there -- Joe, again, there he is,  
16 liver on the bottom there and our local halibut fishery  
17 creates additional employment. Here are three vessels, BADER  
18 CRUISE -- actually, the top left is my wife and two daughters  
19 working on bait and the bottom photo is Simeon Swetsoff's crew  
20 and the boy on the right, that was awhile ago we took this  
21 photo and some of these younger guys, they started baiting  
22 like that and now he's a full-fledged crew member on one of

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1 the vessels.

2 The CDQ halibut fishery really is a major  
3 contributor to jobs at St. Paul Island. Out of a population  
4 of over 500, we average at a hundred -- over a hundred people.

5 That includes the baiters and crew members, part -- get jobs  
6 in the halibut fishery and you have to factor in that not --  
7 maybe 300, for example, are teenagers on up from baiting to --  
8 and then that are employable ages and if you can notice there  
9 in 2002, the catch landing started reducing in Area 4-C or  
10 CBSFA's fishery in both St. -- fisheries at St. George and  
11 lowered there but so in 2003, CBSFA created the CBSFA halibut  
12 cooperative and the goal of the cooperative is to raise ex-  
13 vessel prices for our local fishermen. We weren't happy with  
14 other buyers in the past compared to statewide prices. We  
15 were getting pretty well ex-vessel prices and the way the  
16 halibut cooperative works is CBSFA purchased the fish and we  
17 got a contract right now with -- the last couple seasons with  
18 Trident Seafoods to process the fish for us and they also help  
19 us market and we take the -- the fish belongs to us and we  
20 take the wholesale proceeds and we deduct our vessel support  
21 program which I'll go into later, the cost of our vessel  
22 support program, and we distribute the remaining profits back

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1 to the fishermen and in 2003, we achieved an ex-vessel price  
2 of 260 a pound, still not as high as a lot of \$3 a pounds but  
3 it's very good for St. Paul.

4 In our vessel support program I mentioned earlier,  
5 we use our halibut wholesale proceeds to cover the cost of  
6 hiring local residents to -- each year. Since about 1995,  
7 we've been managing these floating docks. They consist of  
8 five sections -- five 40-foot by 15-foot wide sections that  
9 are both in here. They're actually working on the boats end  
10 to end and then it's anchored inside the St. Paul Harbor with  
11 about -- tall anchors, with tall anchors and right here, CBSFA  
12 in 2002, we purchased a 60-ton growth crane to use to launch  
13 and retrieve these floating docks. They're putting them in  
14 the water here over to the side and then they bolt them  
15 together here. These are local guys. It's creates jobs and  
16 in the past, we -- we've relied on other cranes, we've rented  
17 other cranes that some of them are broken down, no longer  
18 working and sometimes it coincided with construction in the  
19 harbor, the large construction cranes, we rented them and it  
20 got to a point where we couldn't rely on those anymore so we  
21 bought this used -- in 2002, it was actually two years old and  
22 we paid \$345,000 for that crane out of Seattle. Cost us over

1     \$33,000 I think it is to ship it up from Seattle to St. Paul  
2     so very expensive to ship stuff like that up. Actually cost  
3     more from Dutch Harbor to St. Paul than from Seattle to Dutch  
4     Harbor and the launch and retrieval of local vessels, in the  
5     past, they had a -- sort of a homemade ramp that got covered  
6     up with harbor work and then we had to rely on cranes to  
7     launch and retrieve vessels. We've also purchased this  
8     hydraulic yard trailer that's supposed to get -- you know, get  
9     under a boat, pick it up and set it back down on the ground.  
10    We have two of those hydraulic trailers, different models.

11             Also part of our vessel support program is vessel  
12    repair and maintenance program. These two guys are -- he's a  
13    diesel technician and a Yamaha technician that CBSFA, we  
14    facilitate this program which consists of we bring in the  
15    technicians, we provide them with room and board. We have an  
16    apartment there and sometimes we provide them with  
17    transportation but what -- the local vessels, they pay for the  
18    parts and labor for these technicians but we help them out.  
19    To reduce costs, CBSFA covers transportation and housing and  
20    we did a pretty extensive vessel re -- vessel fabrication and  
21    rebuilding. In 1998, we constructed a temporary enclosure  
22    inside one of the large garages or large warehouses on St.

1 Paul Island which we no longer have access to. We cre -- we  
2 constructed a temporary enclosure in the middle of winter and  
3 we provided heat in there and 220 -- we had to install 220 and  
4 back in '98/'99, we had a pretty major vessel repair. You  
5 know, four vessels were lengthened on St. Paul Island. We  
6 brought in Quijack Lane (ph) out of Seattle and then whoever  
7 wanted to work with him, get on-the-job training and they also  
8 replaced a lot of engines and did a lot of aluminum  
9 fabrication and we now have a local guy that does it the last  
10 couple years, Ricardo Mercurief. He worked at Quijack for him  
11 a few years and he now does a lot of our local vessel repair.

12 Last year, he replaced the bottom of one of our 26-footers  
13 that kept cracking and leaking so it's been a very important  
14 -- we view it as trying to keep the local or stable local  
15 fleet to main -- maintained to harvest our CDQ halibut and  
16 part of our -- the vessel support program has been several  
17 marine safety training. This one here was a couple years ago.

18 We brought people in, certified instructors or Coast Guard-  
19 approved instructors. The last one is Alaska Marine Safety  
20 and Education Association out of Sitka that provided marine  
21 safety training. We've held several of these over the last 10  
22 years and we've also brought in electronics navigation

1 instructors and stuff of that nature throughout the years.

2 And this is sort of just to breaks -- title sliding  
3 in to switch gears here, CBSFA education and training program.

4 This program was developed in 1993 and many students have  
5 been benefitted from -- through our scholarships and training,  
6 advanced student loans. Since the beginning of this program,  
7 CBSFA awarded a total of \$350,000. Our board and myself, we  
8 feel this is -- this program has made a major contribution to  
9 the residents of St. Paul Island, providing them higher  
10 education, training that would -- very important to help them  
11 make it in this world and this just shows 24 students that  
12 received assistance, financial assistance from CBSFA that have  
13 received -- completed their training or received a college  
14 degree. A lot of them thank us and saying that a lot of their  
15 scholarship monies from CBSFA and they -- I think we've got a  
16 plaque this -- we got a plaque from the last girl that  
17 graduated right there thanking us for all our support and  
18 expedient program but she became a lawyer. She got -- passed  
19 her Bar exam this summer. I think lawyers are fishery-  
20 related.

21 MS. LEAMER: Yes.

22 MR. LESTENKOF: This slide here is just to show

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1 you the construction work that's been taken place. This is in  
2 2004. It's been going on the last several years on the St.  
3 Paul Harbor Improvements Project and you can see -- this  
4 activity is going to ultimately lead up to the construction of  
5 the small boat harbor which CBSFA is heavily invested in and I  
6 showed this to you last time. Here's the proposed area for a  
7 60-vessel small boat harbor inside the St. Paul Harbor. This  
8 main breakwater was completed around 1989, 1990, then  
9 sheltered. Before we didn't have a shelter cove at St. Paul  
10 Island for a harbor and the work you seen in there, they're  
11 building the spending beach and they're dredging out a  
12 maneuvering basin for larger vessels to turn around an  
13 entrance channel that went out this way. Two, three years  
14 ago, they completed these submerged reefs outside the main  
15 breakwater 3,000-foot, 1,100-foot reefs to protect the main  
16 breakwater.

17 MR. BLATCHFORD: How did you get supplies on  
18 the island for.....

19 MR. LESTENKOF: They were lightered in. The  
20 vessels would anchor out here somewhere out here off in the  
21 village cover they call it and they would use a -- they used  
22 to use the biters in the early years. They're made out of

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1 skin boat design that was towed by a smaller launch. Then  
2 they also use old LCM's and probably LCM's that could be  
3 hauled up on the beach to lighter supplies. Of course, they  
4 had a runway at St. Paul for many years too. Reeve Aleutian  
5 flew out there and at the last public hearing, I passed out  
6 the executive summary to all of you from the Corps of  
7 Engineers on their -- it was an executive summary from their  
8 general reevaluation report they completed in November and I  
9 gave the full copy to Greg Cashen and this to point out  
10 project cost and benefits and the federal government will be  
11 covering 2-1/2 million but on small boat harbors, they don't  
12 pay for small boat harbors and the non-federal cost of the  
13 small boat harbor is right there, approximately 7.85 -- 7.8  
14 million and the ben -- they came up with a benefit to cost  
15 ratio of 2.4 for benefit to one for cost and that's made up of  
16 these numbers here, the average annual national economic  
17 development benefit's 1.9 million and the average annual cost,  
18 7.93 so this shows a positive benefit to cost ratio for the  
19 small boat harbor being constructed at St. Paul and we also  
20 feel this harbor will be a benefit to the larger Bering Sea  
21 fleet and hope that it will draw in or attract more halibut  
22 deliveries from Area 4-D and it will also provide a safe haven

1 if vessels break down to get towed into this harbor to get  
2 repaired and should promote more fuel sales for vessels and  
3 shopping for supplies and potentially jobs, I would think.

4 And this table shows our current set-aside amount  
5 and what we project we could end up with. Of course, we're  
6 asking for increased pollock allocation to help us save money  
7 towards construction of the small boat harbor. Currently, we  
8 have 3.8 million set aside or saved up and then in 2006 to  
9 '08, we would -- if we get a increased pollock allocation, we  
10 would like to increase our set-aside. We could even increase  
11 it a little more than that if we could afford it because  
12 according to the Corps' schedule, they plan to start  
13 construction if everything goes well in 2006 and completion in  
14 2007.

15  
16 This is just to show you a couple of our accounts  
17 that CBSFA has at Morgan Stanley and this is the small boat  
18 harbor set-aside or we got a restricted account or restricted  
19 for small boat harbor construction and we also have an account  
20 set up for -- to construct a vessel repair facility which I'll  
21 go into next. Here's a preliminary design of a vessel repair  
22 and maintenance facility. Earlier, I said we set up a

1 temporary enclosure in a larger warehouse that's no longer  
2 available. We had this plan for several years and it was --  
3 we've been managing to -- last year, we got a little space in  
4 the City's garage to duce that bottom -- repair the bottom of  
5 one boat I was telling you about earlier. We're also  
6 considering -- we're also looking at evaluating -- making this  
7 20 feet longer so we can store our 60-ton crane in there and I  
8 would also need to evaluate if we convert to larger vessels  
9 whether this shop can benefit. Obviously, we're not going to  
10 put a 58-footer in there. I think a 40-footer can get in  
11 there but I believe there will also -- that's -- this is,  
12 right here, a 35-footer vessel in there, two of them, and I --  
13 I'm sure there's always going to be a small boat fleet around  
14 St. Paul Island that can benefit from this vessel repair shop  
15 and we talked several weeks ago -- we came -- talked with the  
16 landlord and he proposed that we look into maybe getting this  
17 area right here -- it's one acre -- to build -- construct this  
18 facility, vessel repair facility and it's in a perfect  
19 location adjacent to the proposed small boat harbor and it's  
20 very hard to find suitable land to build anything near around  
21 St. Paul Harbor. In the first place, it's very small and very  
22 -- hardly any available land. So next step is we got to go to

1 the landowners' board of directors to secure that site.

2           And as Earl knows, in December 12th, the North  
3 Pacific Council approved -- I'll call it CBSFA's proposal  
4 because in December, 2003, CBSFA brought the proposal to the  
5 North Pacific Council to ask them to allow Area 4-C IFQ and  
6 CDQ to be harvested in Area 4-D. Since 2002 till now, we've  
7 roughly harvested approximately 50 percent of our CDQ  
8 allocation due to lowering catch rates and lower abundance in  
9 Area 4-C. From 1995 to 2001, CBSFA's St. Paul fishermen, we  
10 harvested, essentially, a hundred percent of our CDQ halibut  
11 allocations and I was at the IPHC interim meeting and they did  
12 a study there. They said it's not for lack of effort in  
13 Area 4-C. They actually analyzed it and they're going to show  
14 it at their annual meeting that they say as the catch rates  
15 went down in 2002, the effort actually went up so more and  
16 more gear was being laid and this is part of our CDP to try to  
17 maybe increase our loans to local fishermen but we need to  
18 evaluate different types of ownership scenarios, whether CBSFA  
19 could outright wholly own a halibut boat or with the crab  
20 boats, we like the skippers to own part of it so they can take  
21 care of their investment and most of our crab boats have that  
22 scenario so -- and then the small boat harbor and needing to

1 go into Area 4-D all sort of fits together.

2           And I'm just show -- I'm showing this harvest rate  
3 slide here because CBSFA, we're requesting a Pacific cod  
4 allocation of up to 15 percent. We're at nine percent now and  
5 I just wanted to show that CBSFA has excellent harvest record  
6 of Pacific cod. Unfortunately, we exceeded our cod this year  
7 and one of the managers takes blames for it. He didn't -- he  
8 said he -- I mean, the vessel company, not CBSFA manager but  
9 -- said he overlooked the A-season landing and the E-season,  
10 he told the skipper to haul -- catch this much and he did but  
11 he overlooked the -- a landing that happened in A-season and  
12 Bering Sea fixed gear sable fish or Bering Sea sable fish,  
13 most CDQ groups have had trouble with that fishery in the past  
14 with killer whales that are converting to pot fishing and I  
15 know one group's been very successful, Yukon Delta, but this  
16 year, after we purchased -- we purchased several vessels in  
17 2003 and we did a test fishery with the fishing vessel  
18 BALLYHOO, we got invested in some pot gear and we were  
19 successful in harvesting 96 percent of our sable fish. We  
20 have a very small allocation, about 90-something thousand  
21 pounds. It's not really a viable fishery but we think that  
22 CBSFA with our vessel and our vessel ownershi -- owner, Rick

1 Vessage (ph), is part owner of the vessel. He's a former  
2 fisherman, feels pretty good that we can handle and make a  
3 successful fishery out of the Bering Sea sable fish  
4 (indiscernible - simultaneous speaking).

5 MR. THORPE: I might add one note here. This  
6 is one of the vessels that we manage in my subsidiary and we  
7 specifically started investing in trying to develop the sable  
8 fish/pod cod fishery for a lot of reasons. We think that's  
9 where this fishery's going because of reduced bipeds but also  
10 as we develop this fishery -- and we did pretty good in our  
11 first year -- it is a fishery that can be landed in St. Paul  
12 Harbor and, as I think most of you are aware, the -- since  
13 1999, our full focus -- our sole focus has been to make  
14 investments where ultimately, they lead to landings in our  
15 harbor and this is one of the more significant ones that we're  
16 driving towards.

17 MR. LESTENKOF: Yeah, these -- in 2003, CBSFA  
18 invested in four of these vessels here. The one up here,  
19 FIERCE ALLEGIANCE, has -- is a AFA offshore catcher pollock  
20 trawler so it has a history there. It also has excellent  
21 history of crab and these other three vessels have histories  
22 in Aleutian island brown king crab fishery and we -- as you

1 can see, they're delivering at St. Paul Harbor so our  
2 investment in these vessels were used to deliver Opilio. In  
3 2004, Opilio, these two vessels delivered into St. Paul  
4 Harbor. We got a contract with Arctic Star/Icicle Seafoods  
5 and we -- we've been delivering our Opilio CDQ to St. Paul  
6 Harbor for processing ever since 1998 when the crab and  
7 groundfish CDQ program was implemented. Many -- five of the  
8 six CDQ groups were also delivering inside St. Paul Harbor for  
9 many years but they're slowly starting to move out to catcher  
10 processors and elsewhere but this was the first year any CDQ  
11 Bristol Bay king has been brought to St. Paul Island and they  
12 were brought in by our two vessels, the BALLYHOO, very large  
13 vessel, and the FIERCE ALLEGIANCE, very large vessel also and  
14 it was so rough out there, the Trident's open access boats  
15 didn't make it in but our boats came in later so this is the  
16 first time Bristol Bay CDQ -- red king, Bristol Bay king crab  
17 CDQ has ever been brought to St. Paul Island and then I'll  
18 just go over one -- this one here. This is me, of course,  
19 this -- in November and we contracted with Trident Seafoods to  
20 custom process and -- with us and a lot of the -- a majority  
21 of our crab, we had a 70 something thousand pound Bristol Bay  
22 CDQ and I think 60,000 pounds of it was processed into whole

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1 cooked crab for especially one buyer so a lot of our crab went  
2 into this one. Ended up about \$70 for one of those crab at  
3 wholesale price so that increased CBSFA's processor profits we  
4 call it and I'll turn it over to Steve Minor.

5 MR. THORPE: I would say -- this is Jonathan.  
6 The other thing I'd like to add to this too, by the custom  
7 processing grant we put together, we also realized about an 80  
8 percent recovery rate on the whole cook -- product as well so  
9 we were able to get a great return on our Bristol Bay fishery  
10 in the harbor. It was just a fantastic arrangement we had  
11 with them this year and we well exceeded the budget on our  
12 Bristol Bay revenues for the year.

13 MR. LESTENKOF: Okay. You're the next one.

14  
15 MR. MINOR: Again, I'm Steve Minor. I've  
16 managed MSDH which is a wholly-owned subsidiary of CBSFA.  
17 Going back just slightly, in 1999, the Opilio Snow Crab crash  
18 specif -- dramatically impacted both St. Paul and CBSFA. At  
19 the time, St. Paul's economy was about 85 percent dependent on  
20 that single fishery and CBSFA was about 40 percent dependent  
21 on Opilio revenues and so it whacked us pretty hard. Over the  
22 year or so following that, we embarked on sort of a dual

1 strategy and Phillip's outlined one of them. The first was to  
2 do everything we could to support and expand and maximize  
3 return on the local halibut fleet fishery because that is the  
4 largest single source of employment and household income on  
5 St. Paul. We -- in the summertime during that fishery, we  
6 employ about a third of the employable people on the island so  
7 it's a very significant form of employment and household  
8 income. The second was to embark upon a more aggressive  
9 strategy to develop landings of all Bering Sea species in St.  
10 Paul. We have the unique advantage of being at the center of  
11 most of the Bering Sea fisheries. You had seen all the  
12 construction going on in the harbor. It's right on schedule.  
13 at the same time, we got aggressively involved along with the  
14 City in crab rationalization and our first step was to get  
15 regional landings requirements for the Pribilof Islands so St.  
16 George and APIDCA are also benefitting from what we consider  
17 our effort almost exclusively to get regional landing  
18 requirements of crab. That's been accomplished now and the  
19 second was to start investing pretty aggressively in first  
20 crab assets and then, more broadly, catcher vessel assets so  
21 that we could directly participate in getting product into St.  
22 Paul Harbor and also directly participate in the processing as

1 well as the harvesting. Phillip earlier showed you the first  
2 four votes that we acquired in June of 2003, the FIERCE  
3 ALLEGIANCE, the EARLY DAWN, the SHISHALDIN and the BALLYHOO.  
4 I'd simply point out of those first four boats, three of them,  
5 the BALLYHOO, the SHISHALDIN and the EARLY DAWN represent  
6 almost 20 percent of the Aleutian Island brown crab fishing  
7 quota under the crab rationalization program so you can see  
8 that they're 18.474 percent. That, again, was a very  
9 conscious decision on our part not to be completely dependent  
10 on just the Opilio and Bristol Bay fisheries but to start  
11 diversifying our portfolio as we are acquiring these assets.  
12 If there's anything we understand, it's crab so we're now one  
13 of the largest participants in the brown crab fisheries in the  
14 Aleutian Islands were fairly significant. In the harvesting  
15 of the other Bering Sea fisheries, we now -- even though we're  
16 a part owner of American Seafoods, albeit a smaller one, we're  
17 investing fairly aggressively. We now have three catcher  
18 vessel pollock boats with about 22,000 metric tons of pollock  
19 amongst them and, you know, under AFA sideboards, we also have  
20 about three million pounds of cod available to us. Now, the  
21 pollock right now is still going to Dutch Harbor. The cod  
22 we're actively working on a program to start getting that



1 Bristol Bay, almost a quarter. We have -- because this is  
2 such a large project, we have invited two other CDQ groups to  
3 participate. They both indicated that they are going to  
4 participate with us in this project. We would be happy to  
5 talk about it more in closed session if you'd like to but this  
6 all of a sudden takes CBSFA from being a relatively small  
7 player five years ago to we will be one of the largest  
8 harvesting and processing players in the crab industry once  
9 this deal's closed and we've integrated everything which is --  
10 the integration itself is going to take us about a year with  
11 crab implementation. The crab program being implement and  
12 everything has got to be done and us making sure we don't step  
13 over the antitrust boundaries. It's -- we still have a lot of  
14 paper work ahead of us but the deal is signed. The  
15 substantial amendment's coming in probably within the week.  
16 Both boards have approved this unanimously. If we can do the  
17 next slide?

18           There's a lot more I could say about MSDH but I  
19 think most of it's in the area of confidential information so  
20 I think we'll turn it over to Jonathan here to wrap up.

21           MR. THORPE: This is Jonathan Thorpe again.  
22 This is a slide that I think we presented at the last public



1 the things that CBSFA has faced in the past is a -- right now  
2 we sit at half of what our original pollock allocation was and  
3 losing over 50. At the time, it went from 10 percent to four  
4 percent or to eight percent to four percent to five percent to  
5 four percent to five percent. There's been quite a bounce in  
6 the pollock allocation we've had but, essentially, we said  
7 about half the amount of pollock and CDQ allocations but the  
8 response, essentially, was let's figure out how to get more  
9 out of it and through some aggressive negotiation, our royalty  
10 rates on pollock have increased by a third and have  
11 substantially helped our revenue stream maintain some  
12 stability.

13 The next major issue that CBSFA has faced over time  
14 was the crash of the Opilio stocks. Again, this was touched  
15 on earlier. The response of CBSFA was to work with the City  
16 of St. Paul and through these joint entity efforts, have  
17 helped pass crab rationalization and, again, the major effect  
18 of this is going to be a huge stabilizing effect on the  
19 economy and the community of St. Paul. I think Steve  
20 certainly could be a little bit more specific with the number  
21 of -- percentage-wise, the number of landings that are going  
22 to have to show up at St. Paul but it's a major impact. It's

1 a -- it's something that CBSFA essentially has to do to  
2 survive. I mean, we -- we've been struggling. We'll talk a  
3 little bit here at the very end regarding our budgets. If you  
4 look at some of the budgets that CBSFA has had to turn in over  
5 time, they're actually negative cash flow budgets. If they  
6 want to continue funding the projects and setting aside for  
7 the small boat harbor that we've been able to set aside not  
8 reliant on American Seafoods but if you look at the budgets  
9 overall, they're net cash flow is a negative on them.

10 The next major issue and a very significant issue  
11 that CBSFA has helped deal with is the falling harvest rates  
12 on halibut. The reason this is such a significant issue is  
13 that the local fishermen, the local people rely so heavily on  
14 the income created from the harvest of the CDQ halibut that we  
15 have and starting in 2002, there was a significant decline.  
16 We went from 900,000 pounds to 600,000 pounds down to 400,000  
17 pounds last year and I think this year, we harvested right  
18 around 395,000 pounds total of our CDQ allocation and seeing  
19 that it was a problem in 2002 and 2003, there was a buying  
20 cooperative put together by CBSFA where we act as the buyer.  
21 We turn around and we work with Trident to market our fish and  
22 sell it out of Seattle. We have some control in pricing and

1 in timing and everything as far as the actual sale of our  
2 halibut in Seattle and through this program, we've been able  
3 to cover our fisheries support program and turn around and  
4 increase ex-vessel pricing tremendously for the local guys.  
5 As you saw earlier in one of the slides, you know, the years  
6 where we've harvested 900,000 pounds, the revenue to the local  
7 economy, the local people, was about a million bucks and you  
8 look at what we did last year, the harvest was half -- less  
9 than half is 412,000 pounds and the payout to the local  
10 fishermen was roughly the same, it was about a million bucks.

11 So there -- this has been a very successful program. It's  
12 truly helped the fishery survive. The local guys continue to  
13 use this as a source of livelihood. In summary, you know, to  
14 kind of get a hoo-ah here, it says when faced with seemingly  
15 insurmountable financial issues to overcome, CBSFA has  
16 responded with a tenacity that's resulted in solid solutions  
17 to the obstacles. We've tried to tackle things not only on a  
18 -- you know, from a legislative management, fisheries  
19 management standpoint, we -- we've tried to do everything we  
20 can -- you know, be it the loan programs and so on to help the  
21 local economy out there. I would like to point out that we've  
22 managed our allocations very successfully. If you look at,

1 for instance, the success we had this year at the Bristol Bay  
2 king crab harvest, the extra value we were able to squeeze out  
3 of that, the value we squeezed out of our halibut, the value  
4 we squeezed out of our pollock allocations, we -- we've been  
5 very effective in managing the allocations that we've been  
6 granted.

7  
8 St. Paul location -- I think we've touched on it.  
9 We sit in the middle of a majority of the major fisheries in  
10 the Bering Sea and as a community, we have the ability to be  
11 an economic engine for the Bering Sea due to our close  
12 proximity of the major fisheries. Something we'd like to kind  
13 of point out is that, you know, we would like to have the team  
14 consider the single community group and view us to some degree  
15 the way the island community of Adak is being viewed while  
16 though they're outside of the CDQ program, they're being  
17 allocated significant amounts of Bering Sea resources to  
18 develop that economy because of the impact they can have on  
19 the Bering fish -- Bering Sea fisheries, Alaska and the nation  
20 as a whole. You look at the cost benefit, the GRR report that  
21 came out for the small boat harbor and the impact that that  
22 would be able to have in the federal view, you know, St. Paul

1 is more centrally located, more able to do that probably than  
2 anybody as a community and let's see here, moving on, we have  
3 significant fishery-related projects that meet the standards  
4 and purpose of the CDQ program in our 2000 (indiscernible)  
5 2000 CBSF CDP. However, if you look at the current royalties  
6 that we can receive with our current allocations, we don't  
7 have the royalty capacity to fund the projects we're looking  
8 for so we're certainly asking to raise some of the  
9 allocations. We'd point out that we've seen an amazing  
10 increase in our total asset and net asset growth which is  
11 great. It's true, you know, and the argument's out there per  
12 capita. We've probably got high value assets and high value  
13 net assets but to the extent we can continue to do projects,  
14 we have very low levels of cash as we -- we certainly have  
15 cash on hand but much of the cash we have is designated for  
16 projects that have been in previous CDP's and will continue to  
17 be in CDP's such as the small boat harbor, such as the vessel  
18 repair center. You know, the cash that we have is designated  
19 and if you look at the unrestricted cash that we have, it's  
20 relatively low.

21 CBSFA, without receiving significant increases or  
22 allocations, we won't be able to participate in the funding of

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1 future significant CDP projects. I think we'll probably talk  
2 a little more in executive session about the opportunity that  
3 we're trying to take advantage of in the crab processing and  
4 further down, it says CBSFA cannot budget in any responsible  
5 manner cash infusions from American Seafoods to be a major  
6 funding source for ongoing and future projects. They've  
7 certainly been a help. The -- as you guys are fully aware,  
8 we've seen over \$10 million over the course of time flow into  
9 CBSFA that has helped drive and help sustain CBSFA over the  
10 years but it's probably not a very reliable funding source to  
11 budget with. We'll take it when it comes and smile but it --  
12 it's not a responsible way to manage our programs.

13 We had requested that the CDQ team evaluate our  
14 current CDQ royal -- royalty revenues and its ability to fund  
15 these ongoing and future projects and we respectfully request  
16 the state CDQ team to develop our CDP -- to evaluate our CDP  
17 allocation based on the intent and purpose of the CDQ program.

18 We believe we have developed a CDP that has furthered the  
19 goals and intent of the CDQ program and thank you for your  
20 time.

21 MR. LESTENKOF: Thank you. That concludes our  
22 presentation.

1 MR. CASHEN: Thank you, Mr. Lestenkof, Mr.  
2 Minor, Mr. Thorpe and Mr. Melovidov. I would like to take a  
3 five-minute break and go off the record at this time.

4 (Off record)

5 (On record)

6 MR. CASHEN: If we could go back on the record?  
7 We're back on the record. The -- we'd like to open up --  
8 have the floor for public comment on CBSFA's 2006-2008 CDP.  
9 Is there anyone in the audience or on line that would like to  
10 make any public comments at this time? Sir? If you could  
11 just.....

12 MR. GROMOFF: I'd like to just state my name.  
13 I work two different halves and.....

14 MR. CASHEN: You need to get.....

15 MR. GROMOFF: Oh.

16 MR. CASHEN: .....come forward and if you could  
17 state your name for the record and spell it out. Thanks,  
18 Laird.

19 MR. GROMOFF: I'm Elary Gromoff and I'm also on  
20 the Central Bering Sea as a board member and also I'm on the  
21 Aleut Corporation board and also I work closely with Bering  
22 Equitech which is a subsidiary of TDX Corporation, with the

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1 village corporation and my name is Elary Gromoff, spelled E-l-  
2 a-r-y and last name is Gromoff, G-r-o-m-o-f-f, Junior, and  
3 also I'm a Aleut and I was born and raised on St. Paul.  
4 Phillip is my first cousin, going a long ways here, and I  
5 would like to say is listening to the presentation is that for  
6 -- from -- as a CDQ group observing him over the years, I'm  
7 just a first year as a board member and I would say from my  
8 observation of what they have done and what they're asking for  
9 is I'd be very supportive that I think the -- you might want  
10 to consider -- considering really on their quota and what we  
11 have and what they're looking for. I think from the  
12 perspective from the Aleut Corporation when their association  
13 went from the Aleutians and the Pribilofs, we look at the CDQ  
14 groups in the region on how to develop the economy and working  
15 with and establishing and moving forward. I think their plan  
16 -- their CDP plan works very well and we support it from my  
17 perspective and I -- I'm not on this TDX board but from Bering  
18 Sea, Equitech from what we'd look in the community because one  
19 of our goals is to develop an economy and jobs in the  
20 community and I think this plan supports our plan. I just  
21 wanted to make -- say that on the record, that we're totally  
22 behind it from a regional standpoint and also from a village

1       standpoint from that point. Thank you.

2                       MR. CASHEN: Thank you, Mr. Gromoff. Is there  
3 any other further public comment? Hearing none, we'll go into  
4 the CDQ team's questions for CBSFA and Mr. Blatchford, I'd  
5 like to take the first question.

6                       MR. BLATCHFORD: What we've done.....

7                       MR. CASHEN: Laird, you want to catch -- do we  
8 need this up here, this thing here? Well, we could turn that  
9 off and put a book up in front of it, that'd be great.

10                      UNIDENTIFIED MALE SPEAKER: I'm not very  
11 (indiscernible) sometimes.

12                      MS. LEAMER: That looks excellent.

13                      UNIDENTIFIED MALE SPEAKER: As long as I don't  
14 set the book on fire.

15                      MR. CASHEN: Try holding it down for a second.  
16 You can take it back and just.....

17                      UNIDENTIFIED MALE SPEAKER: You could just pull  
18 the plug out.

19                      MR. CASHEN: Yeah, that's true. We're finished  
20 with it, aren't we?

21                      UNIDENTIFIED MALE SPEAKER: Yeah.

22                      MS. LEAMER: Yeah, just leave it the way it is

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1 so the (indiscernible) pulled it off.

2 MR. CASHEN: Okay. (Indiscernible -  
3 simultaneous speaking). But you can lower the cover there.

4 UNIDENTIFIED MALE SPEAKER: There we go.

5 UNIDENTIFIED MALE SPEAKER: Actually shut off.

6 UNIDENTIFIED MALE SPEAKER: It's shut off.

7 MR. CASHEN: Okay. Mr. Chairman and Phillip  
8 and CBSFA, we've spent a lot of time with the questions. We  
9 divided up the questions. These are -- you may have gone over  
10 some of the answers in your presentation but by asking the  
11 question, we give you another opportunity to elaborate on the  
12 concerns here or the issues that we have before us. We have  
13 nine questions.

14 THE REPORTER: Put your mike on.

15 MR. CASHEN: Okay. We have nine questions for  
16 you. I think we have nine questions there and each number the  
17 CDQ team will be asking a question -- at least one question.

18 My question, the question that has been assigned to me, the  
19 CDQ program has been in existence for 12 years. Please  
20 explain Central Bering Sea's long-range transition plan and  
21 investment strategy to create a self-sustaining fisheries-  
22 related economy in the region. What steps has Central Bering

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1 Sea taken in the current allocation cycle, 2003 to 2005, to  
2 achieve this goal?

3 MR. LESTENKOF: Well, the long-term plan and,  
4 first of all, like we mentioned, St. Paul is strategically  
5 located in close proximity to major Bering Sea fisheries and  
6 so our main focus all along has been to develop the St. Paul  
7 Harbor and have a local fleet based out of St. Paul Harbor to  
8 deliver fish into St. Paul Harbor to support the economy in  
9 general and the last CDP, as you saw, we in -- heavily  
10 invested in fishing vessels for that purpose with the long-  
11 term goal of using those vessels to deliver fish into St. Paul  
12 Harbor to support the economy and that would get to -- towards  
13 the goal of a self-sustaining fishery-related economy. We've  
14 also heavily invested in the small boat harbor for many years  
15 and I'd like to point out that even if we wanted to construct  
16 a small boat harbor last year, we -- it was impossible because  
17 that was following the Corps' St. Paul Harbor improvements  
18 project that -- that's -- they're still trying to complete and  
19 that got behind schedule with cost overruns and some  
20 engineering feats they had to surpass and so investment in  
21 fishing vessels, developing a local fishing fleet and trying  
22 to improve the infrastructure within the St. Paul Harbor is

1 basically our overall plan, goal and, I think, we're -- it's  
2 falling in place and we've also suffered setbacks, received  
3 cut in -- major cuts in pollock allocations. We made a very  
4 good investment in American Seafoods which, essentially, kept  
5 us afloat and allowed us to grow in spite of low revenues from  
6 royalties at one point in time. The year 2000 after the  
7 Opilio crash, we put together a budget that was \$500,000 in  
8 the deficit and we've always maintained that at a five percent  
9 royalty, four or five percent pollock royalty that we wouldn't  
10 get very far but we've, fortunately, survived that and  
11 actually grown tremendously -- had tremendous growth and I  
12 hope I answered the question.

13 MR. MINOR: I think Phillip summed it up very,  
14 very well, in essence, given our location, our drive towards a  
15 self-sustaining economy is based on, really, acquiring both --  
16 acquiring direct access to the resource, not just the CDQ that  
17 you grant us but acquisition of vessels back -- acquisition of  
18 the IFQ that comes with those vessels as pollock moves toward  
19 rational -- I mean, check that, as Pacific cod moves towards  
20 rationalization. We have already a real head start on direct  
21 control of -- we got 2.9 million pounds of cod under the --  
22 not including CDQ, just based on our vessel investments.

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1 We've got another million pounds under lease. You know, we're  
2 aggressively trying to corral both the assets and access to  
3 the resources we need so that -- to do it in partnerships with  
4 the right partners so that it does not -- so that we increase  
5 our odds of success, I guess, is how we would put it. Pick  
6 the partners carefully and then try to get control of access  
7 to the resource and get it into our harbor, pretty straight  
8 formula. I have had the pleasure of also working with the  
9 City for almost a decade on the funding issues for the main  
10 harbor and Phillip's right, that got a little behind. It got  
11 the small boat harbor behind but the U. S. Congress, in their  
12 wisdom, is committed -- they've taken off the budget caps on  
13 that project. It will get done -- one way or another, it's  
14 going to get done now so I think we're on track and I think  
15 the investments in the last 15 months really underscore that  
16 we're on track and we're pretty consistent about what we're  
17 trying to do here.

18 MR. CASHEN: Thank you. CBSFA has requested an  
19 increase in their pollock allocation from five percent to 12  
20 percent and I was just wondering if you could provide further  
21 justification for your allocation request based on your past  
22 performance of active projects and your proposed projects in

1 your -- in the 2006, 2008 CDP.

2 MR. LESTENKOF: Yeah, Greg, a lot of that  
3 request centers on the small boat funding -- the construction  
4 of the small boat harbor and although we have a schedule there  
5 that's showing million dollars a year set aside, an increase  
6 of 650,000, we still need to raise another \$4 million and it  
7 seems like -- to us, pollock royalty revenue mainly -- pollock  
8 is the highest value CDQ allocation, the bread and butter  
9 species everybody calls it and to invest in dredging a hole in  
10 the ground is not very profitable. I mean, I don't think --  
11 that's the trouble with other entities -- the villa -- St.  
12 Paul entities. That would be a significant amount of money to  
13 dig a hole in the other -- well, another lawyer that's not  
14 going to pay off a dividend and so we feel like this program,  
15 being fishery related, it -- this is a great opportunity to  
16 use the CDQ program to get a small boat harbor constructed in  
17 St. Paul Harbor providing long-term economies and that will  
18 also benefit not only the residents of St. Paul but the larger  
19 Bering Sea fleet and that's the main need for increased  
20 revenues and another thing is to try to loan some money for  
21 our fishermen last year too since fishing's slowing down and  
22 knowing we were at the council to get to Area 4-D, we need to

1 get larger vessels so we needed more money to loan out to our  
2 fishermen and then we also buy halibut too. There's a point  
3 where we -- we've always prepared a line of credit each year  
4 to buy halibut because we're spending all our cash investing  
5 in vessels and going to the company or CBSFA so it -- cash is  
6 getting very tight for us.

7 MR. THORPE: And there's a couple other things  
8 that I can add that are in the CDP too. We've -- you know,  
9 just in working with the other entities and discussing, you'll  
10 find in the packets that we had handed out, there's a letter  
11 that was attached that we've just received from the City of  
12 St. Paul talking about their ability to continue funding the  
13 small boat harbor and, you know, they -- they've directly come  
14 to request CBSFA step in and start finding some of the  
15 engineering and consulting and legal issues with that and it's  
16 there for you guys to look at but the City and the councils  
17 basically had reduced their budget to zero. A couple of the  
18 other things that we have in there is we have general harbor  
19 repairs and maintenance, the floating docks that are out  
20 there, just the other -- the harbor in general. There's not a  
21 lot of money floating around out there that's available to do  
22 some of the maintenance and, you know, CBSFA is looking to be

1 a source that could help with that. One of the other things  
2 that we've -- you know, we'll, you know, probably discuss here  
3 as pieces fall into place is the ability to buy into process  
4 or quotas or add -- you know, we -- we've got a deal on the  
5 table right now. We're going to probably have opportunities  
6 to look at northern region quotas and that's going to be a  
7 substantial investment at some point that we have to make and  
8 we're going to have to put like a -- we're going to have to  
9 put that money aside to be able to make a -- an investment in  
10 the future when we have opportunities. If you look at the  
11 program, the right of first refusal on processor quotas they  
12 leave or consolidate, we'll have opportunities to do that but  
13 we'll need some finding to take advantage of those  
14 opportunities.

15 MR. MINOR: I guess I'd just like to add one  
16 comment which is if we look at this -- I don't know the exact  
17 situation of all the other group -- groups. I suspect we have  
18 one of the highest debt to equity ratios at this point because  
19 we have been aggressive but we've gone about as far as we can  
20 go. By the same token, even that 10 or 12 percent, we're not  
21 expecting the CDQ program to generate other revenue we need.  
22 With MSDH, for instance, with all of the investments we've

1     been making, we have it structured so that 70 percent of all  
2     the profits go back into CBSFA's budget for community projects  
3     for the things you've been talking about. We're being very  
4     aggressive in trying to distribute cash back into the  
5     community with those investments. We've taken a pretty  
6     aggressive posture, as you know, with a couple of them where  
7     we're starting to buy not just the majority share but a  
8     significant majority share of these assets when they think  
9     they're going to perform all this high 75 percent with the  
10    STARLITE and STARWARD so we are trying to generate as much  
11    cash as we can and get that back into these projects as well.

12    That's all spelled out in our various operating agreements  
13    between the subsidiaries.

14                   MR. LESTENKOF: Yeah, I'd like to just make one  
15    more comment. We've always argued that -- personally that  
16    five percent pollock allocation, being a CDQ group fishery-  
17    related investments are very expensive -- you know, millions  
18    of dollars just to get into vessels, the -- and then the  
19    harbor, very expensive infrastructure projects at five  
20    percent, I feel that if we didn't -- if we weren't fortunate  
21    in having a return on our investment in American Seafoods, we  
22    could have easily went bankrupt, I think, as a CDQ group so I

1 don't feel five percent for any group is -- it can't go very  
2 far but we've overcome that, fortunately.

3 MR. CASHEN: Okay. Thank you. Commissioner?

4 MR. BLATCHFORD: Okay. Thank you, Mr. Cashen.

5 Mr. Chairman, the third question is -- of the Central Bering  
6 Sea is how does Central Bering Sea feel about public  
7 disclosure of compensation levels for key personnel?

8 MR. LESTENKOF: Yeah, I myself personally said  
9 -- been asked that question before that I personally didn't  
10 have any problem with that and I feel like maybe I'm one of  
11 the lowest paid CEO's.

12 MR. MELOVIDOV: Mr. Man?

13 MR. LESTENKOF: But if it's required and  
14 desired by the state and NMFS, it's okay with CBSFA.

15 MR. MELOVIDOV: I might want to comment on  
16 that. I think, you know, CBS has been very vocal on how we  
17 favor (indiscernible - away from microphone). I think --  
18 yeah, I believe, you know, CBSFA's been very frugal on how we  
19 pay our CEO and I know he's for sure the lowest paid CEO  
20 amongst all the groups and I think we're not out to get rich  
21 off this program. We're there to help our community and see  
22 that the projects are carried through without having to be

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1 scrutinized in this program. Thank you.

2 MR. CASHEN: Thank you. Mr. Davis?

3 MR. DAVIS: Yes, Commissioner Davis for the  
4 record. Address this to any one of you. I'd like to know  
5 first what is your plans and -- current and future plans for  
6 employment with your harvesting and processing partners who  
7 are at sea?

8 MR. LESTENKOF: Oh, at St. Paul Island, we've  
9 -- you know, we only have one pool of employees or one village  
10 CDQ group are not like the other CDQ groups that have many  
11 villages or many potential employees but we've had residents  
12 that have gone on factory pollock factory trawlers and a lot  
13 of them last one or two trips and they don't really like that  
14 lifestyle. I think we have a problem, they'd rather live on  
15 St. Paul and get some other type of job and our halibut  
16 fishery attests to that. I mean, we have a lot of people that  
17 like to do the halibut fishery, participate in the halibut  
18 fishery and you get to come back home. Living at sea on  
19 larger vessels we have and all that but we haven't had very  
20 many luck there. We have several individuals that go crabbing  
21 and we have, you know, a couple individuals right now that  
22 want to get on these vessels for Opilio and also get on the

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1 pollock catcher boats and we've had presidents that have been  
2 on the -- our partners' long line but it doesn't seem like the  
3 -- they last very long. I can imagine other groups, they got  
4 so many people, they can -- one set can turn a -- I mean, give  
5 that up because they don't like that grind and then they can  
6 find more people to replace and maybe their statistics are  
7 better but I don't know, if you look at how long a single  
8 individual stays, I'm sure there are a few but I think they  
9 have a high turnover rate in any kind of fishery. I mean,  
10 crabbing even, for instance, there's a very high turnover in  
11 crew members in any fishery. Just seems to be the nature of  
12 the beast.

13 MR. MINOR: If I could -- you know, how you  
14 look at employment is -- there's lots of ways to look at it  
15 and, I think, you know, one of the things that clear in St.  
16 Paul is that when you look at our halibut fishery, we suck up  
17 all the available labor there is during the summer so, you  
18 know, when we've.....

19 MR. DAVIS: Yeah, well, let me ask you that  
20 (indiscernible) further question one. What about what's your  
21 employment plans for on the island, people based on the  
22 island?

1                   MR. MINOR: Well, I can tell you our thinking  
2 on the issue and we'll see if our theory proves out. When you  
3 consider that in the halibut fishery, we have a lot of people  
4 that are -- fairly modest wages sitting there in the rain  
5 baiting hooks. I don't think there is any unwillingness to  
6 work. What there is is there is, as Phillip has said, a  
7 desire to return home at night and so they -- there's -- we've  
8 had participation with people going at sea for extended  
9 periods but never high participation because there's been  
10 alternatives. I do think though as we start rebuilding the  
11 processing industry in town as the fleet moves towards 58-foot  
12 boats and away from 26-foot boats, you know, we'll create  
13 opportunities that'll be filled fairly quickly. On the MSDH  
14 side with the vessels we have, we'll place people when they  
15 want to work and, you know, we have a fairly consistent but  
16 low number that want to do that. Again though, it's a  
17 slightly different situation because people like to go home  
18 and they've been able to do that.

19                   MR. DAVIS: What about -- David, what about  
20 jobs in processing plants or that kind of work?

21                   MR. LESTENKOF: There are several individuals  
22 that work in the plants there, like Trident, already and

1 they're low pay, long-hour jobs and generally, they're like, I  
2 think, the last resort jobs but we try to -- I mean, I think  
3 we have a excellent employment record in the seasonal halibut  
4 fishery. Most fisheries are seasonal anyways but we have a  
5 tremendous employment record in the local halibut fishery  
6 where people want to privately own their own boats and manage  
7 their own boats and they go and harvest their CDQ halibut.  
8 That's very successful and I think that more than makes up for  
9 the small amount of people that go out on factory trawlers at  
10 sea and it's a very rough lifestyle to be out at sea for a  
11 long time and I wouldn't blame them. I've been in a factory  
12 trawler parked in Seattle and it's like -- you know, it's like  
13 working in a dungeon but there's money there and people at the  
14 last resort will do something like that at St. Paul.

15 MR. DAVIS: Thank you.

16 MR. THORPE: I'd add one other thing. If you  
17 look at some of the projects, I would -- you know, we haven't  
18 seen what there'll be for employees but I'd imagine you'll  
19 start seeing -- as the small boat harbor's completed, you may  
20 have some longer-term dock security, things like that. You  
21 know, I'd imagine as your bus or repair center gets up and  
22 running, if it's supporting more than just a small -- the

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1 local small boat fleet and there's more repairs that might be  
2 taking place out there, there may be opportunities for  
3 mechanics or something like that to have longer stints of time  
4 where they'll be working and not on vessels as well.

5 MR. LESTENKOF: I -- yeah, I'd also like to add  
6 -- he just reminded me -- on this construction of the small  
7 boat harbor, we -- we're saying that this would be very good  
8 for St. Paul, we're telling the other entities, because the  
9 halibut fishery declined and the crab declined and they're  
10 constructing -- doing high wages and several individuals are  
11 working with the St. Paul Harbor improvements project, very  
12 high wages and we -- I forgot that -- the construction of a  
13 small boat harbor will ensure some very high Davis Bacon wages  
14 was another benefit, sort of like a construction economy while  
15 the halibut is slow and crab is down so hopefully, if  
16 everything went well, the crab would rebound and halibut would  
17 -- can go to 4-D so that -- it's almost like a perfect thing  
18 to have this small boat harbor done when fishing is slow.

19 MR. CASHEN: Mr. Krygier?

20 MR. KRYGIER: We had Commissioner O'Cleary,  
21 Labor, testify to us earlier and he brought forward that the  
22 Governor particularly -- and, of course, it was the Department

1 of Labor -- was very interested in making sure jobs from  
2 Alaska move into these and so we want you also to think about  
3 because you'll have some control over ownership of some of the  
4 vessels and various things, if people in St. Paul or St.  
5 George don't want to go on some of these vessels or, you know,  
6 they would rather work more in the area, think first then  
7 where is the next place in Alaska where you can encourage your  
8 partners to hire there first rather than going outside of the  
9 state and we want you to put that high on your list because  
10 it's very important that we hire Alaskan and from each of the  
11 -- that way you can spread the benefits to the CDQ community  
12 outside of the 60-some communities of Western Alaska into the  
13 rest of Alaska and we can benefit as Alaskans and so I think  
14 it's important to remember that.

15 MR. MINOR: If I may, Earl, in the MSDH project  
16 which has already managed the vessels we have, you know, we've  
17 had -- the oldest vessel we have in the fleet is -- we bought  
18 15 months ago and most of them we bought recent -- even more  
19 recently. We have start -- starting next year put in a  
20 outreach to try to get out and start doing exactly what you're  
21 saying, trying to get some more slots filled from within the  
22 state and within the region.

1 MR. KRYGIER: Okay.

2 MR. DAVIS: And just as (indiscernible) raise  
3 the plan, I forgot to tell everybody that we have had one  
4 probably comment that you didn't get to hear. That was  
5 Commissioner O'Cleary. He appeared at APIDCA and asked that  
6 all six groups be aware of his public testimony which was,  
7 essentially, what Earl said, that the Governor's got a jobs  
8 program which includes maritime training. The state will be  
9 providing funding for that training and wanted all the groups  
10 to know about that opportunity.

11 MR. LESTENKOF: Yeah, I'd just like to add that  
12 we do occasionally from year to year have other Alaskan  
13 residents come into St. Paul and crew on our halibut vessels  
14 or even from St. George or -- it has happened already in the  
15 past where other Alaskans participated in our fisheries.

16 MR. THORPE: I should point out that I'm  
17 another Alaskan that is living in our CDQ community that is,  
18 obviously, benefitting from the program and have a job because  
19 of the program. I live down south in Soldotna and, you know,  
20 through a series of events, this has worked out and been an  
21 opportunity for me so.....

22 MR. KRYGIER: Now, I've got a question that's a

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1 little open-ended and, certainly, if you have plans that are  
2 proprietary that you're going to share with us later, don't  
3 include those in this -- answering this question but -- and I  
4 -- you did give us a pretty good overview and I just wanted to  
5 kind of tease this out a little more. Because of crab  
6 rationalization, is there any things that you want to  
7 highlight to the group that you have in your 2006, 2008 CDP  
8 that relate to kind of how those plans fit together and, in  
9 particular, I think you did cover about the golden and red  
10 crab. Now, the golden crab would fit in with where you have  
11 your allocation from your vessels that have the brown crab.

12 MR. MINOR: Absolutely.

13 MR. KRYGIER: The red crab is further out.  
14 That's Petrol Bank and is there.....

15 MR. MINOR: We also have.....

16 MR. KRYGIER: Give us some idea how those  
17 pieces go together and what you're planning on from crab  
18 rationalization and utilizing that in your PD -- your CDP's.

19 MR. MINOR: Sure, I -- maybe I can break down  
20 sort of the two pieces dealing with the -- actually, the crab  
21 addendum first. The eastern and western Aleutian brown crab,  
22 golden crab, whatever you want to call it, fisheries as well

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1 as the Adak red crab fishery of -- are very specialized. In  
2 the Aleutian Island golden crab fisheries, there's only 13 --  
3 well, 12 or 13, I don't know after the buy-back -- ultra  
4 vessels -- we've got three of them, that's why we have so much  
5 of the quota, because it's not a typical pot fishery, it's a  
6 long-line pot fishery so we expect and we've already got an  
7 agreement with APIDCA -- we expect once people realize this is  
8 a very specialized fishery, we've got the hardware and the  
9 expertise to do it, then we'll play a pretty big role. As you  
10 saw in -- it is an area that I'd rather -- be more comfortable  
11 discussing behind closed doors. We will also end up with a  
12 very -- once we consummate the processing deal with a very  
13 significant share of the processing quota in that region for  
14 those two species, we will -- we'll have both. We'll have the  
15 IFQ and we'll have the specialized gear and expertise and  
16 we'll have the processing quota for both of those species.  
17 The Adak red crab under rationalization is allocated to the  
18 processors based -- using exactly the same formula as Western  
19 Aleutian golden crab so we're such a significant player there,  
20 by default, we end up as a significant player in the Adak red  
21 crab so in terms of the crab addendum and those two new  
22 species, with the exception of one other CDQ group that has

1 heavy harvester investments but no processor investments,  
2 we're probably the biggest CDQ player in those fisheries once  
3 this final deal is put to bed.

4 In regards to -- I'm sorry, remind me again where am  
5 I going next?

6 MR. CASHEN: Well, you could always -- you took  
7 in red.....

8 MR. MINOR: Oh, in regards to 2000 -- in  
9 regards to 2006 to 2008, I think, you know, St. Paul, we're a  
10 crab-dependent community. We really understand it, you know,  
11 and we have invested not only heavily in harvesting and  
12 processing assets, we're -- and it's referenced in the CDP up  
13 north in St. Paul Harbor -- our processing relationship will  
14 not just be a direct investment and it'll include in a joint  
15 venture with a couple other processors to achieve  
16 efficiencies. We're way out ahead in terms of sort of trying  
17 to be at the center of everything that goes on in the  
18 Pribilofs with breadth. I mean, all the way down to it's our  
19 intention to make -- to do some quota swapping with our boats  
20 so that we can be central to the coops that form up there.  
21 You know, we -- we've -- we got a pretty detailed approach to  
22 crab. It's the one thing that we're really, really focused

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1 on.

2 MR. CASHEN: Good.

3 MR. LESTENKOF: I -- I'd like to add -- I don't  
4 know if it answers your question but at the board level, I  
5 recall that we're already leery on investing in more crab  
6 vessels because we struggled with two vessels we had since '96  
7 and '98. We invested in two other vessels that they -- but  
8 they didn't have Aleutian crab -- they didn't fish Aleutian  
9 brown kings and they didn't have a history and that and we  
10 viewed these four vessels with a board-diversified species  
11 that would make it more stable plus one of them had pollock.  
12 The FIERCE ALLEGIANCE had pollock so from our investment  
13 perspective, we thought this was more safe investment since  
14 they had more variety and the other vessels went under when  
15 the Opilio crashed but we're fortunate, we sold one off and  
16 one is approved in the vessel buy-back so we'll pretty much  
17 break even on those two vessels.

18 MR. MINOR: As a last note, we -- we'd like to  
19 take full credit but, of course, sometimes it's just luck.  
20 First of all, I want to acknowledge that St. Paul would not  
21 have gotten regional landings of crab except for the help of  
22 the state. We were shut out of all the meetings four years

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1 ago, as many of you know, and it was the state coming with us  
2 to D.C. and sort of getting Ted Stevens to weigh in that  
3 changed that and we'll always be aware of that. Second, we  
4 started buying fairly aggressively before people really firmly  
5 believed crab would happen and we were recently made an offer  
6 on one of our crab boats that we bought just 15 months ago  
7 that was double what we paid for it so our investments in crab  
8 harvesting assets are very well timed. So we're quite happy  
9 with the way this is going right now.

10 MR. CASHEN: Good. Okay. Thank you. Ms.  
11 Leamer, do you have -- want to take the next.....

12 MS. LEAMER: This is Lola Leamer. In 2002, the  
13 council recommended an allowance for 20 percent of the annual  
14 pollock CDQ royalties that may be spent on in-region  
15 sustainable non-fishery related economic development projects.

16 What's CBSFA's plans, if any, for this allowance and how will  
17 it benefit their communities?

18 MR. LESTENKOF: Well, when the council  
19 addressed amendment 71, they approved it in 2002. I believe I  
20 was in Dutch Harbor. While they were addressing amendment 71  
21 in the fisheries versus non-fisheries, actually, CBSFA's  
22 position through that process was that we didn't support non-

1 fisheries related investments. Just because, as you can see,  
2 our proximity to the resource and we still need a -- major  
3 investments in St. Paul Harbor, we took a stance that we  
4 didn't support any non-fisheries related investments. Of  
5 course, we lost but -- so we know that we could spend 20  
6 percent now that's not implemented but we haven't really --  
7 we're investing right now pretty much -- we've got so much  
8 fishery-related projects we're trying to complete -- mainly,  
9 the harbor, stuff like that, so that's where all our focus has  
10 been right now. We have that in back of our head that we're  
11 going to be able to and I believe they asked us not to come up  
12 with any maybe that is part of the CDP, not fish-related  
13 projects.

14 MR. THORPE: Yeah, I gue.....

15 MR. LESTENKOF: A hotel comes to mind. We need  
16 a new hotel.

17 MR. THORPE: Yeah, I'd -- I would just kind of  
18 add to that as well. Again, as we've pointed out, you know,  
19 the royalty streams that we have right now probably aren't  
20 sufficient to cover some of the existing projects we have and  
21 certainly wouldn't be enough to fund future projects so  
22 they're -- you know, although we know it's out there, it's

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1 certainly not something we've taken time to budget for  
2 because, you know, 20 percent of the pollock royalties that we  
3 do have just isn't going to be enough to do a whole lot of --  
4 or make a whole lot of impact for us. So when you're  
5 budgeting on negative cash flow, it -- it's certainly not  
6 something where you can start evaluating outside of the  
7 fisheries you're trying to develop. So.....

8 MR. CASHEN: Thank you. Mr. Black, do you want  
9 to take number eight?

10 MR. BLACK: Yeah, obviously, your presentation  
11 -- this is Mike Black and your presentation certainly focused  
12 on the St. Paul Harbor projects and the small boat harbor. I  
13 had some questions about that. One, the relationship of the  
14 City in that you are a one-community program, can you explain  
15 the relationships of the City and your organization as far as  
16 that harbor's concerned? Of course, the construction is a  
17 shared responsibility. Is that a shared funding is what we're  
18 talking about, as I understand it? And how about after it's  
19 completed, what would that be?

20 MR. LESTENKOF: Well, up to now, we've had our  
21 own set-aside fund we created back in 1999 just saving money  
22 and the City and other entities like the village corporation

1 back in, I would say, '92, '93 already -- before the CDQ  
2 program really kicked off, we were already discussing a small  
3 boat harbor for many years and we're not really partners on  
4 that except that the City is the local sponsor -- recognized  
5 local sponsor that would apply for the tidelands in that area  
6 and there's some upland owners that are involved that -- so  
7 the village corporation's involved and the tribal government's  
8 got some waterfront land so everybody is more or less tied  
9 together because of land issues but City has budgeted annually  
10 and that's what this letter is about. They had -- they're  
11 starting to cut their budget and they feel like the CDQ group  
12 could afford this engineering, consulting and maybe some legal  
13 issues of lands and they sent us a letter just yesterday. Got  
14 it at the airport. They had their budget meetings but we're  
15 not really jointly together but City's been spending money on  
16 planning and designing and lobbying and consulting and they  
17 felt like they can't afford all that anymore and maybe the CDQ  
18 group could afford that right now.

19 MR. BLACK: And then once it's constructed,  
20 obviously, operation, maintenance, management, so forth are  
21 all responsibilities of any particular organization or the  
22 group?

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1                   MR. MINOR: May -- maybe I can a -- you know,  
2 we've tended to focus appropriately so for CBSFA on the small  
3 boat harbor but there's two different projects, the main  
4 harbor, all the neighboring basins and channels and then the  
5 small boat harbor. We haven't spoken today but this might be  
6 the time to just say we also have a relationship with the  
7 community in the main harbor because there is only three  
8 locations in the harbor to build processing plants. One of  
9 them is the -- if you remember on the aerial, there's -- you  
10 got the main breakwater and there's a berth there with about a  
11 400-foot ship in there in that aerial photo. We control the  
12 berth in the uplands. They're a lease from the City. So, you  
13 know, Phillip's been mostly addressing the small boat harbor  
14 as we go forward, the construction of all the non-federal  
15 pieces plus the operation and maintenance of that will be a  
16 CBSFA responsibility. In the main harbor, that'll be a City  
17 responsibility with the exception in that berth which will  
18 become a responsibility of MSDH and our partners once it's up  
19 and running. We've budgeted next year, for instance, the  
20 money to go in and do a survey early in the spring because we  
21 think there might have to be some dredging in the berth before  
22 the -- it's occupied next fall under crab rationalization so

1 we're starting to spend money in the direction of the main  
2 harbor too in the piece that -- where we're going to be  
3 putting our project but, you know, there is a bit of a  
4 dividing line. CBSFA, the small boat harbor more and more is  
5 becoming our responsibility and the main harbor is the City's  
6 with the exception of the berth which will probably be MSDH's.

7 MR. LESTENKOF: Yeah, I'd just like to add on  
8 this letter from the City manager, they say they still want to  
9 remain the local sponsor for this small boat harbor project  
10 and the federal project. On the federal cost side, 2-1/2  
11 million is the federal Corps monies and I think the City as a  
12 local sponsor must come up with about \$678,000 and I'm hoping  
13 that they -- they'll allow me the state legislature for that  
14 share but we're also willing to cover that cost if we could  
15 afford it as a CDQ group.

16 MR. BLACK: Just following up on that then, has  
17 the City -- because of a partnership between the City and  
18 yourselves, I'm assuming the City has found a great deal of  
19 benefit from that partnership and, obviously, it seems to have  
20 in joint projects. I'm assuming also that the City will find  
21 it beneficial from the standpoint of landings, processing and  
22 fish tax or that sort of thing which will allow the City to

1 improve its health financially and it brings to a question my  
2 -- something that I wonder if you've thought about. The  
3 relationship between St. Paul and St. George, is there a  
4 relationship? You know, obviously, you're in separate  
5 organizations in -- as far as this is concerned but you're,  
6 obviously, connected in the same fishery and I know they're  
7 going to participate in the rationalization of crab.  
8 Obviously, they will get landings in St. George if I'm  
9 correct. At some point, that may not be the case. Is there  
10 any thoughts on that?

11 MR. MINOR: You know, the -- with the  
12 president's permission, I'd like to respond to this one.  
13 During the last CDQ allocation cycle, I actually facilitated  
14 meetings between the City managers of the two communities  
15 because we wanted to open up a discussion about as things  
16 inevitably started to consolidate in the St. Paul Harbor, how  
17 could we work together to share the benefits of that and,  
18 quite frankly, it was the other CDQ group in question that cut  
19 off those discussions. I mean, we know that it's an issue  
20 that has to be dealt with but sooner or later, you know,  
21 somebody's going to have to facilitate this because we've  
22 tried and we were denied.

1                   MR. LESTENKOF: I envision that the local small  
2 vessels from St. George could use the 60-vessel harbor and  
3 base out of -- during this fishing season. Our fishing  
4 season, basically, is June to September there and the  
5 weather.....

6                   MR. MINOR: Mm-hmm (affirmative).

7                   MR. LESTENKOF: .....that they -- they've been  
8 scooting over there the last couple -- mainly last summer,  
9 they all started to venture over on real nice days and go  
10 shopping and whatever with their small boats and it's possible  
11 there'll be room up in the beginning in this harbor that they  
12 could just use this small vessel harbor and push out of St.  
13 Paul. Their fish is -- halibut's actually tendered to St.  
14 Paul the last couple -- several years to be processed at St.  
15 Paul.

16                   MR. MINOR: Thank you.

17                   MR. CASHEN: Thank you. Mr. Jones?

18                   MR. JONES: Thank you. Laird Jones for the  
19 record. Could you provide a brief update on the flatfish pool  
20 that CBSFA participated, you know, starting in 2003 and the  
21 benefits you've received from this relationship? Thank you.

22                   MR. LESTENKOF: Well, that's -- Laird would ask

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1 the hardest question. Well, my view of that is there was a  
2 couple of groups vying for that and I decided to go with the  
3 majority groups and our allocations of Atka mackerel and the  
4 other flatfish, they're not very lucrative to CBSFA and we get  
5 some money out of it but it's not very much and I guess that's  
6 why the pool has to be with several groups in order to be --  
7 have a vessel -- have a viable amount of quota but I just  
8 viewed it as -- personally as good PR, trying to work with  
9 other groups. I know the program here urged CDQ groups to  
10 work in -- cooperatively and that's basically -- but it's not  
11 very much royalty revenue in that for CBSFA.

12 MR. CASHEN: Okay. Thank you. Are there any  
13 additional questions from the team at this time?

14 MS. LEAMER: I just have one question. Now,  
15 with regard to your -- the letter from the City manager and  
16 they're -- you know, they're stating their economic  
17 disadvantage in completing the small boat harbor plans. Do  
18 they own any waterfront property? They do not? Okay. So  
19 they -- so it wouldn't be possible for them to in lieu of  
20 money be able to trade lands they can put your boat --  
21 building facility on?

22 MR. MINOR: If I could, it's -- there has

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1 actually been some court actions over who controls those  
2 uplands and this and that. Right now, they serve the TDX and  
3 we're -- I think we're assuming it's going to stay that way.  
4 It is under appeal by the City because there are some  
5 questions about how that conclusion was arrived at. Right now  
6 the City doesn't have any waterfront land other than the berth  
7 at the main breakwater which we have under lease from them  
8 already but that's the main harbor, not the small harbor  
9 project. In the small har -- boat harbor area, they don't  
10 have land adjacent to water.

11 MS. LEAMER: And you're leasing that from them?

12 MR. MINOR: Yes.

13 MS. LEAMER: They wouldn't be willing to give  
14 that to you?

15 MR. MINOR: Well, I think anything's possible.

16 The lease, actually, is up for renewal right now and we're  
17 moving towards -- for implementation of crab so we're sorting  
18 out right now what the future relationship might look like.  
19 That's a good suggestion to think about an outright swap.

20 MS. LEAMER: You're going to have a  
21 permanent infrastructure which is future streams of money as  
22 far as taxes go.....

1 MR. MINOR: Mm-hmm (affirmative).

2 MS. LEAMER: .....so it would benefit both  
3 of you.....

4 MR. MINOR: That's sort of an interesting  
5 idea.

6 MR. THORPE: But I guess the other thing  
7 thing I could point out too, the development of that berth,  
8 the dis -- some of the discussions we've had will sort of -- a  
9 pretty good portion of the cost that -- that's going to come  
10 to bear to develop that -- the berth is going to come from the  
11 for-profit processors that are going to be joining into a  
12 joint venture to develop that spot and so, you know, we --  
13 we've got to get to a point where that happens but it's not  
14 going to be CBSFA bears all the cost to develop that berth.  
15 It'll be a -- the for-profit entities that will be utilizing  
16 that berth to process too.

17 MR. MINOR: Oh, so like the negotiating  
18 angle, you know.

19 MR. LESTENKOF: The tidelands right under  
20 the proposed small boat harbor, the City applied for those  
21 tidelands so there was one idea that the City could turn  
22 around and we sit back to CBSFA for a dollar a year and we

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1 could acquire all this under the tidelands area and the harbor  
2 area and then own and manage it. That was one concept and try  
3 to, you know, have it pay for itself with moorage fees and  
4 stuff like that.

5 MR. CASHEN: Okay.

6 MR. THORPE: And I -- if I could point out one  
7 other thing too, on some of the development, we're working  
8 with one of our processors on obtaining some monies from them  
9 that qualify for the CDQ-related tax monies and various  
10 projects that we have qualified and so we should see some of  
11 the funding that we need to do. Some of us work for the City  
12 and the with the City come from some of our various partners  
13 in the form of grant monies from the -- to get tax credits.

14 MR. CASHEN: Okay. Thank you. At this time,  
15 I'd -- don't think we have any further questions. I'd like to  
16 move that we go into executive session for specific matters  
17 that -- we have Chris Poag with the Alaska Department of Law  
18 who can discuss some of the parameters of executive session  
19 and.....

20 MR. LESTENKOF: Is this phone on?

21 MR. CASHEN: Okay.

22 MR. BLACK: It's been moved and seconded to go

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1 into executive session for the reasons to be stated by the  
2 Department of Law. Mr. ....

3 MR. LESTENKOF: Well, I was wondering is this  
4 telephone out to the public?

5 MR. CASHEN: It is during the public session  
6 but not during executive session.

7 MR. LESTENKOF: The public comment or.....

8 MR. POAG: Well, there's no one there to shut  
9 it off right now.

10 MR. LESTENKOF: I was wondering if it's still  
11 on.

12 MR. CASHEN: It's.....

13 UNIDENTIFIED MALE SPEAKER: I thought the  
14 lights were off so there's no one on line.

15 UNIDENTIFIED MALE SPEAKER: Ours are not green  
16 so I don't think we're connected.

17 MR. CASHEN: Okay.

18 UNIDENTIFIED MALE SPEAKER: Okay. Am I wrong?

19 MS. LEAMER: No problem.

20 MR. CASHEN: Under discussion on the question  
21 whether to go into executive session for the matters to be  
22 stated by the Department of Law, Chris?

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MR. POAG: Chris of Department of Law. This is the sixth time I've done this and I'm trying to be consistent more for the public's purposes because I think you've received our letters explaining what we're going to do to the extent that the public's present, I'm supposed to provide the grounds that support our motion to go in executive session and today the state CDQ team wishes to go into executive session under 44.62.310 and that would be subsection C(3) and (4) and that C(3) and (4) pretty much cover the same things and those are matters of which are confidential under state law and the state law that we're relying on is the Alaska Constitution. That's Section 1, Article 22 -- Article 1, Section 22, and that's Alaska's constitutional right to privacy. It provides protection for commercial business information which is highly proprietary and we believe two topic matters are covered by that today which we wish to, one, have you present information on and, two, potentially ask questions about and that would be your business plans for the future and your CDQ royalty rates. That's information for which your right to remain -- keep that information private exceeds the public's right to know. It would be detrimental to your business and the public's

1 right to know that is not that furthered by disclosure. So  
2 those are the grounds for the motion. If the CDQ team votes  
3 in favor of that, we'll close the doors. The tape recorder  
4 will remain on and I've been explaining to the groups what  
5 that means is much like the confidential documents you'd  
6 supplied to us, the state takes the position that this tape  
7 recording and the transcript are confidential and we would  
8 deny requests from the public for that information. We would  
9 deny it on the grounds that I stated, that it's protected by  
10 constitutional privacy. If that were challenged in -- well,  
11 one, if someone did request that information, we would  
12 encourage your lawyers to get involved and to help us to  
13 prevent that disclosure but, of course, this could end up in a  
14 court and a court would have to decide that issue. It's our  
15 hope by keeping a -- an accurate record today of why we went  
16 into executive session and what we do in executive session,  
17 that we can protect you and protect the team and protect the  
18 process. Without that, we are, obviously, subject to the  
19 argument that when we close the doors, we did secret things  
20 that we shouldn't have done. So that's an explanation as to  
21 the process, the procedure. What we've been doing for the  
22 other groups is asking that the president of the corporation

1 identify who they want to remain in the room during executive  
2 session besides the CDQ team because you're disclosing this  
3 private information to them and we want your permission for  
4 you to disclose that to them. It usually has resulted in  
5 everyone staying in the room and the last thing we've asked is  
6 for your blessing to -- for me to remain in the room as well  
7 because you're disclosing your private information to me.  
8 It's information, obviously, we'd get through my  
9 representation of the team but, you know, we do want your  
10 blessing on that issue as well.

11 MR. DAVIS: We have no particular feelings  
12 about Mr. Poag staying in the meeting. Sorry.

13 MR. LESTENKOF: So you're representing the  
14 state or you work for the state?

15 MR. POAG: I work for the Department of Law and  
16 Mr. Cashen calls me often and I provide legal advice to him  
17 and the team, yeah.

18 MR. LESTENKOF: Yeah, we don't have any  
19 objection to the board and board member and president of a  
20 subsidiary being in the room.

21 MR. POAG: If it's all right, could you just  
22 name them for the record so we have their names?

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1 MR. LESTENKOF: So are we -- we approve  
2 Patience Mercurief, Elary Gromoff and Rena Kudrin to remain  
3 here during executive session along with Ivan Melovidov,  
4 Jonathan Thorpe, Steve Minor and myself, Phillip Lestenkof,  
5 and yourself, Poag.

6 MR. POAG: Poag.

7 MR. LESTENKOF: Poag.

8 MR. POAG: Like bogue but with a P. Yeah.

9 MR. LESTENKOF: Oh, Poag. Mr. Poag.....

10 MR. POAG: Thank you, sir.

11 MR. LESTENKOF: .....from Department of Law.

12 MR. POAG: Thank you. Mr. Davis, you have  
13 anything to add to the Department of Law's advice?

14 MR. DAVIS: Well.....

15 MR. POAG: Watch this now.

16 MR. DAVIS: No, except to say that we're  
17 reporting this on the advice of counsel given the trend in the  
18 case law not in this state but other states and given the  
19 broad breadth that I think the court has interpreted, the name  
20 on the state and (indiscernible - interference) Department of  
21 Law, we would deem the information to be confidential and  
22 treat it as confidential. With that, the only thing I would

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1 add if we could close the door. Okie-dokie. We need to vote.

2 MR. BLATCHFORD: Okay. Is there any further  
3 discussion on the motion? Hearing no further discussion, all  
4 in favor, say aye.

5 MEMBERS: Aye.

6 MR. BLATCHFORD: All opposed, say nay. Hearing  
7 no nays, motion passes. Please close the door. We are now in  
8 executive session. Mr. Cashen?

9 **(CDQ TEAM GOES INTO EXECUTIVE SESSION FOR TWO MINUTES)**

10 MR. POAG: I'm sorry, Chris Poag, Department of  
11 Law again. We should probably go back into public session. I  
12 just want to clear this up before we get down the road and  
13 things are disclosed and we can't do that so if we could  
14 convene back in public session?

15 MR. BLACK: Okay. We're back in public  
16 session. Greg?

17 MR. CASHEN: We're back on the public record.  
18 Mr. Melovidov, if you'd like to make your comments?

19 MR. MELOVIDOV: Sure. Yeah, thank you, Mr.  
20 Cashen. Yeah, for the public record, you know, as far as  
21 CBSFA's concern, that -- you know, having to re come back to  
22 Anchorage again, you know, and having to come and redo this

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1 public hearing and coming back to our normal way we've  
2 conducted CBQ public hearings and private sessions, I'm not  
3 very happy about how -- what happened and I would like to say  
4 it's unnecessary and then CBSFA has to spend additional  
5 dollars that we did not budget and create -- creates a lot of  
6 hardship for me to have to actually come out to the private  
7 session and go back home and then having to return back. I'd  
8 just like to say that -- for the record that I'm not very  
9 happy about what happened.

10 MR. CASHEN: Okay. I appreciate your comments  
11 and that's duly noted.

12 MR. BLATCHFORD: Thank you, Mr. Mayor. Is  
13 there a motion to go into executive session?

14 MR. CASHEN: Sure.

15 MR. LESTENKOF: I move we go in.....

16 MR. CASHEN: Oh, wait.

17 MR. POAG: I just wanted to provide you're not  
18 the only group to object and I wanted to provide the response  
19 I provided to the other groups which is that you choose what  
20 information you provide us in your CDP and you're right, there  
21 is a different procedure taking place today and if you choose,  
22 if this cause -- I mean, we don't mean to chill what you tell

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1 us and that wasn't our intention and that's why we're trying  
2 to properly follow executive procedure, to provide that  
3 confidential protection but if we didn't follow that process,  
4 we could come back, have to be -- if there were a challenge,  
5 we could be forced to come back and do this over again and  
6 then we'd be back at stage one six to nine months from now  
7 having to talk about these same issues again so we're sorry  
8 for the additional costs and expense and the burden it caused.

9 It -- the advice came from me. It was a response and maybe  
10 it's probably, in hindsight, an issue that should have been  
11 addressed maybe a long time ago but things are what they are  
12 and it happened the way it happened so, again, apologize for  
13 that but you choose what you provide to us in executive  
14 session as long as it's related to those two topics and those  
15 two topics over and that's your business plans and your  
16 royalty rates. We can't go beyond the scope of that or the  
17 executive session won't be protected and we, again, don't mean  
18 to chill your discussions about that but I understand that you  
19 -- that folks have had some concerns about this new process.  
20 We apologize.

21 MR. LESTENKOF: Myron just moved me to make one  
22 more comment and, you know, I've really just been going along

1 with the ride with all these changes and that ended up here  
2 with this public/private and I tell the guys well, I don't  
3 know what to call it anymore, public, private. We used to  
4 call it private and then I -- CBSFA, we didn't bring in an  
5 attorney at this point, we were just going along right now  
6 with this new process and we didn't spend a dime which I think  
7 probably most groups have to review this whole new process and  
8 I think we're just trying to wing it from now but it seems  
9 like that this type of process is going to start raising our  
10 attorney fees. I'd just like to put that on public comment  
11 but we -- we've gone this far trying to just go for the ride  
12 for now.

13 MR. CASHEN: Okay. There -- on.....

14 MR. DAVIS: Your objection noted.

15 MR. CASHEN: .....no further public comments,  
16 I'd like to move to go back into executive session. Is there  
17 a second for Mr. Jones?

18 MR. BLATCHFORD: It's been moved and seconded  
19 and there discussion? Hearing no discussion, all in favor of  
20 going into executive session for the purposes stated by the  
21 attorney, say aye.

22 MEMBERS: Aye.

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1 MR. BLATCHFORD: All opposed, say nay. Hearing  
2 no nays, motion passes. We are now back in executive session.  
3 Mr. Cashen?

4 **(CDQ TEAM GOES INTO EXECUTIVE SESSION FOR 40 MINUTES)**

5 MR. BLATCHFORD: Okay. I'd note that about 10  
6 to 4:00, we're back in the public record and the Chairman  
7 wanted to talk about budget matters. You have the floor.

8 MR. CASHEN: If you want to do so.

9 MR. MELOVIDOV: Well, I think this might be out  
10 of line -- I mean, we're mainly talking about this 2005 budget  
11 that's the current CDP so I don't think it's necessary at this  
12 point to discuss that.....

13 MR. CASHEN: Okay.

14 MR. MELOVIDOV: .....after thinking about it.

15 MR. CASHEN: Is there anything further from  
16 anybody, Mr. Thorpe?

17 MR. THORPE: I've got a request for -- I -- I'm  
18 not sure if the state should perhaps take the time and  
19 publish, you know, some basic financial statement ratios that  
20 the groups as a whole. I mean, what our averages -- I mean,  
21 we have no benchmarks to compare ourself to as far as what's  
22 the performance of a CDQ group without releasing, obviously,

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1 too much confidential information, I'm not sure if there's a  
2 certain set of standard financial ratios that almost every  
3 business in the world has benchmarks within their industry to  
4 compare to. It'd be something that would be very useful to  
5 evaluate.

6 MR. CASHEN: You mean in the aggregate, all six  
7 groups?

8 MR. THORPE: In the aggregate, the groups as a  
9 whole, what it -- what -- you know, debt to income, you know,  
10 so on and so forth.

11 MR. CASHEN: We could -- yeah, we could work on  
12 -- work with you on that in the aggregate. We can't re -- you  
13 know, it'd have to be the program as a whole.

14 MR. THORPE: Okay. Ab -- absolutely. Program  
15 as a whole and then, you know, as we, you know, continue  
16 looking at investments and that sort of thing, you know,  
17 obviously, we'd be able to evaluate how we compare if we're  
18 getting into a deal that's probably going to get us in over  
19 our head as compared to how the other groups are operating as  
20 a whole, program as a whole so absolutely, that'd be very  
21 helpful.

22 MR. CASHEN: Okay.

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1 MR. DAVIS: Okay. This is Mr. Davis. I think,  
2 Jon, we should probably take your suggestion to the other  
3 groups and -- so that we might be looking at that but I do  
4 think in terms of also reporting to the United States Congress  
5 about the performance of the groups as we face re-  
6 authorization issue, it would probably be useful of industry  
7 benchmarks as a pretty neat program.

8 MR. THORPE: Absolutely.

9 MR. DAVIS: So they would understand the effort  
10 that goes into making this all work and I make that suggestion  
11 if you don't mind, we'll take it to the next level. Thank you  
12 for the suggestion.

13 MR. THORPE: Please. Yeah. Appreciate that.  
14 Thank you.

15 MR. DAVIS: Okay.

16 UNIDENTIFIED MALE SPEAKER: Mr. Chairman, you  
17 have any comments?

18 MR. MELOVIDOV: No, I think.....

19 MR. CASHEN: Okay. Well, thank you very much  
20 for your testimony and I'd like to go -- unless the team has  
21 anything further, I'd like to -- does the team have anything  
22 further I should ask. Okay. I'd like to go -- conclude the

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1 hearing and go off record.

2 (Off record)

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\* \* \* END OF PROCEEDINGS \* \* \*

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