



February 11, 2009

Robert D. Mecum
Acting Administrator
NMFS Alaska Region
P.O. Box 21688
709 W. 9th Street, Room 420
Juneau, AK 99802

Re: Draft Environmental Impact Statement on Chinook Salmon Bycatch Limits in The
Bering Sea Pollock Fishery

Dear Mr. Mecum,

I am writing to comment on the Bering Sea Chinook Salmon Bycatch Management Draft Environmental Impact Statement from the perspective of a major buyer of pollock products harvested in the Eastern Bering Sea. I work for the Unified Foodservice Purchasing Cooperative, LLC. (UFPC). UFPC is the exclusive supply chain manager for Yum! Brands, Inc. U.S. restaurants. Yum! Brands, is the world's largest restaurant company and includes Long John Silver's, the category leader in the U.S. quick-service seafood segment. Long John Silver's sells an array of fried and grilled seafood items to more than 140 million customers each year. I have purchased seafood since 1992, first for Long John Silver's and then for the UFPC when Long John Silver's was purchased by Yum! Brands in 2003.

Since 1992, Long John Silver's has consistently ranked among the largest users of fillet blocks made from Alaska pollock harvested in the Eastern Bering Sea Exclusive Economic Zone and U.S. origin pollock has made up the majority of the battered fish sold in Long John Silver's restaurants. Over the past five years, 100 percent of battered fish sold in Long John Silver's restaurants has been made from U.S. origin Alaska pollock. Since pollock was introduced into Long John Silver's battered fish line, Long John Silver's purchases represent more than 1.4 million metric tons of whole pollock.

My personal experience with the U.S. pollock fishery goes back beyond 1992. Prior to working for Long John Silver's, I spent five years at the National Fisheries Institute (NFI) where part of my responsibilities included fish and industry issues along the west coast including Alaska. Before that, I was a staff economist for the North Pacific Fishery Management Council for three years and my primary responsibility was writing regulatory impact reviews.

My comments today will focus exclusively on Chapter 10 of the EIS, the Regulatory Impact Review (RIR). Specifically, I will limit my comments to the discussion of the impacts on pollock markets of a premature closure of the pollock fishery due to an unrealistically low hard cap.

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Use of Dated Price Data Undervalues Pollock Fishery

The market data, including wholesale price data, cited in RIR is taken from the “2007 Economic SAFE Report.” Wholesale prices, and hence, the wholesale value of the fishery, are derived from product prices through 2005, or at best, 2006. Given that prices for fillets made from U.S. pollock have increased substantially since 2006, the use of 2005 or 2006 prices significantly understates the value of the pollock fishery in Alaska. For example, prices for regular skinned, or pin bone out pollock fillet blocks, FOB east Coast, as reported by the “Urner Barry’s Seafood Price Current” have increased by 49% since 2006 and 69% since 2005 (see table below).

Wholesale Prices, Pin Bone Out Pollock Blocks

	\$/Lb, FOB East Coast	
2005	\$	1.19
2006	\$	1.34
Feb, 2009	\$	2.00
Increase, 2005 to 2009		69%
Increase, 2006 to 2009		49%

Source: Urner Barry's Seafood Price Current

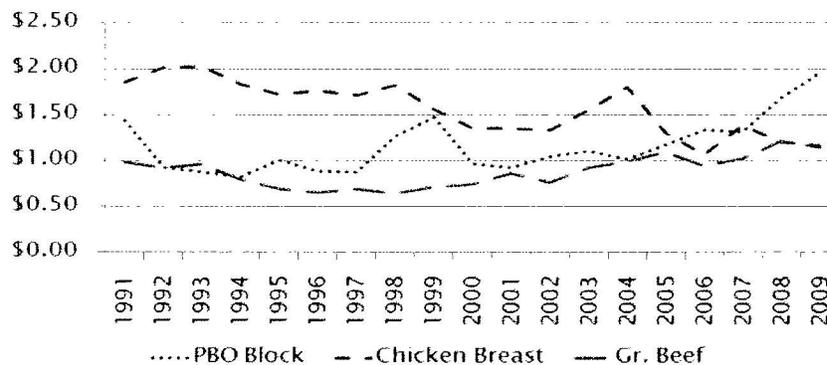
While the data from Urner Barry is not official government data, it is widely relied upon by the industry. U.S. export data confirm the magnitude of the increases reported by Urner Barry. U.S. export data provide FOB, port of export prices and most pollock products are exported directly from Alaska so prices include little in the way of freight, markup or other charges. Capturing the recent increased price levels is important as evidenced by the increased prices for products exported to the two largest European destinations referenced in the RIR - Germany and the Netherlands. For the Netherlands, the price of all fillets exported from Alaska increased from \$0.99 per pound in 2005 to \$1.53 per pound in 2008. For Germany, the prices for fillet exports increased from \$1.05 to \$1.65 per pound over the same period. Note these export prices are somewhat understated since there are pin bone in, piece block and other lower-quality and lower price items included in these data. The Urner Barry price data is the only available data applied to one specific fillet type. Urner Barry prices have been good indicators of European prices as U.S. buyers have had to match European prices (in U.S. dollars) in order to preserve market share as quotas have declined.

Characteristics of Market Stress Importance of Reliability of Supply

Compared to other agricultural commodities and even other proteins, Alaska pollock fillets have been somewhat unique in their ability to maintain a series of significant price increases from 2005 to 2009, despite the global economic recession. Chart 1 shows the price movements for three of three protein items from 1990 to 2008. Prior to 2006, prices for pin bone out (PBO) fillet blocks were consistently bound by the lower ground beef prices and higher skinless, boneless chicken breasts. Since that time, however, pollock prices have broken clear of both items and now command significant price premiums to both competing proteins. This is explainable in part by the reduction in the U.S. quota, but as much, if not a

greater factor, is the nature of the market for these products. The marketplace for Alaska pollock fillet products is characterized by a relatively small number of both buyers and sellers. There are two primary market destinations for U.S. origin Alaska pollock. First, there are large volume customers in Europe and the U.S. that bread or batter the product for sale into retail outlets. The second large category includes large fast food restaurant chains, primarily in the United States. Demand for single frozen pollock fillets from the U.S. fishery has been enhanced by the sustainable certification from the Marine Stewardship Council, especially in the European market, but MSC certification for competing products produced from other fisheries is currently underway.

**Major Protein Price Comparison: U.S. Market
(1991 – 2009)**



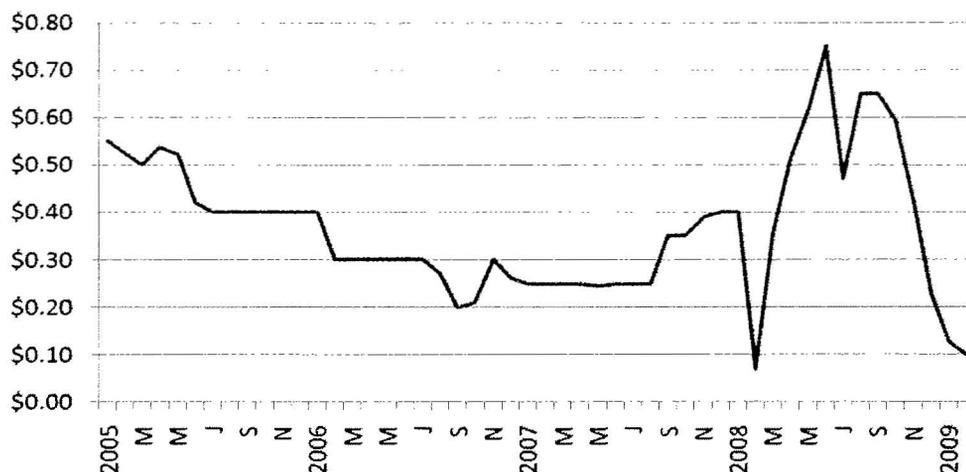
Sources: Urner Barry, USDA, EMI Analytics

The large end-users will annually spend millions of dollars on marketing programs and promotions. These programs require a steady, assured supply of raw material to execute successfully. Often, there are barriers to these companies' ability to move quickly from one resource to another including species and supplier approvals, consumer research, etc., creating a temporary inelasticity in the demand for the proteins used in their products. In the case of the large European companies, the inclusion of the Marine Stewardship Council (MSC) logo on the packaging and promotional materials effectively limit them to Alaska pollock from the U.S. fishery---at least in the short run (the Russian pollock fishery is currently seeking MSC certification and may well become a major competitor to U.S. producers, especially if it does not face unanticipated supply disruptions).

One of the primary assets of the U.S. pollock fishery that has made it the "fishery of choice" for these large users is the reliability of the resource and the management system. The pollock fishery offers a unique combination of strong stock assessment, thorough oversight and enforcement and effective in-season management that provides reasonable advance notice of potential changes in stock size and a high degree of confidence that, once the quota is set, the fishery will harvest the quota. This reliability is the foundation of the strong prices pollock fillet products have attained and maintained over the past several years and has allowed long-term contracts lasting more than a year, a practice somewhat unheard of in the seafood industry.

However, U.S. pollock products are starting to feel strong competition from aquacultured species such as tilapia and pangasius. As production efficiencies improve for those species and as their costs of production decline, pollock fillets and tilapia and pangasius fillets are starting to approach price parity in the marketplace. Large volume buyers find aquacultured species highly desirable because of their year round consistency and the ability of producers to increase supply in response to increased demand. Promotional calendars are often planned as much as a year and a half in advance as there are significant lead times for media, production of promotional materials and training materials. Buyers must be confident that suppliers can supply the product they need for these events. While pollock buyers have been willing and able to accept some level of supply uncertainty due to changing biomass size, the type of uncertainty and risk associated with bycatch-related closures will likely cause at least some of the large end-users to shift usage from pollock to other species, including tilapia and pangasius. The chart below shows the margin between pollock blocks and tilapia blocks are very near their all time low. Converting to tilapia from pollock has never been more attractive. This makes the markets for U.S. origin Alaska pollock extremely vulnerable if any one of the significant attributes, such as supply reliability, is compromised.

Price Premium: 3-5 oz. Frozen Tilapia Fillets over PBO Pollock Blocks



Source: Urner-Barry's Seafood Price Current

The Regulatory Impact Review suggests that if the pollock fishery were shut down prematurely due to a hard bycatch cap or if the fishery were unable to catch the quota due to a large area closure, there would be a loss of revenue due to the foregone production, but that loss would be mitigated by an increase in price as a result of the reduced supply. This severely understates the negative impact of such a closure on the market for U.S.-produced pollock products. We believe strongly that a bycatch management system that substantially increases the risk that the fishery will be closed prior to reaching the quota with little or no advance notice removes the strongest advantage the fishery holds in world wild whitefish markets – the reliability of the supply. Without the confidence that the quota will be taken, large restaurant chains and large processors that produce breaded and battered products will be unwilling to enter into long-term agreements or create marketing campaigns or promotions

that require a stable supply of raw material. Single-frozen pollock fillet blocks from the U.S. fishery will lose their current advantage in the marketplace and large customers who are unwilling to risk abruptly running out of product will convert to the more reliable supplies of aquacultured finfish or simply drop whitefish menu offerings altogether. The negative effect on prices and quantities demanded from the fishery would be dramatic—and perhaps permanent.

Loss of Protein to Consumers

Closure of the directed fishery due to bycatch regulations would deprive the U.S. and world of substantial quantities of high-quality, relatively low-cost protein. The chart below shows the quantity of finished product foregone for every 100,000 mt of pollock lost. Assuming an average of four ounces of fish per meal, for every 100,000 mt of pollock lost, we forego protein for more than 250 million meals, or enough to feed the combined populations of Dallas, Detroit, Indianapolis, Seattle, San Francisco, and Anchorage one meal per week for an entire year.

Therefore, For every 100,000 mt of pollock lost, we lose:

	Whole Fish MT	Product Weight MT	Product Weight Pounds
DSAP	24,000	4320	9,525,600
PBO	32,000	7360	16,228,800
PBI	2,000	620	1,367,100
Surimi (whole)	38,000	9120	20,109,600
Surimi (recovery)	-	3,418	7,536,690
<u>H&G</u>	<u>4,000</u>	<u>2480</u>	<u>5,468,400</u>
	100,000	27,318	60,236,190

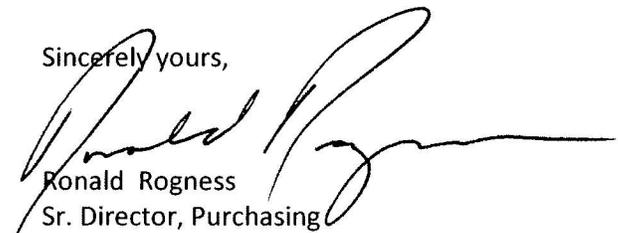
Assuming 4 ounce portion, total # pollock meals lost is 240,944,760.

Source: National Marine Fisheries Service Processed Product Reports

For all these reasons, I urge the NPFMC to limit bycatch restrictions to practicable measures that are reasonably calculated to reduce bycatch without resulting in a premature closure of the Bering Sea pollock fishery.

Thank you again for the opportunity to comment on the EIS/RIR.

Sincerely yours,



Ronald Rogness
Sr. Director, Purchasing
Unified Foodservice Purchasing Cooperative, LLC