

Hawaii Fisheries Disaster Relief Program

Research Summary Report

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- 2. Title of Project:** VAK Fisheries
- 3. Fishery Targeted:** Tuna, other species as caught by longline fishing methods.
- 4. Award received:** \$276,200
Actual amount spent: \$276,200

5. Project Objectives.

A. Formalize Membership.

1. **Sign Up Members.** One of the first objectives of VAK was to secure a base membership of 15 vessels. As of May 1, 2008, membership in VAK Fisheries is 16 vessels operated by 15 separate companies.
2. **Adopt Membership Agreement.** The company's Membership Agreement, which every new member must sign, is attached.

B. Establish an office, warehouse, and build walk-in freezer.

The company signed a five-year lease for a badly deteriorated warehouse in Kalihi in the summer of 2007. The first several months of the grant were spent cleaning it up and building it out as a warehouse with a walk-in freezer. This was accomplished and an open house ceremony was held on September 13, 2007. The headquarters is a 4,670 square-foot providing room for the 1,400 square-foot walk-in freezer and ample space for supplies, critical for bulk purchase discounts. In addition, the property has eight parking spaces and room for the trucks, which need to deliver and pick-up supplies. Build-out and improvement costs were significant and the company intends to remain for many years. The lease has an option to renew for an additional five years.

Kalihi is a mixed commercial and residential quarter and security can be a problem. The cooperative has spent a good deal on security systems and security doors to the

warehouse. The building is shared with two additional companies and the parking lot and perimeter are closed with a chain link fence each evening.

C. Establish accounts with providers of bait, fishing supplies, and fuel.

1. **Bait, Supplies.** Even before the open house, VAK used precious grant money to traveled to China to special order some of the equipment supplies (specifically, stronger fish hooks than available from normal supply houses) and orders for almost \$200,000 in bait and supplies were placed. All of the supplies and bait are imported from China and Taiwan. At any given time, VAK has sufficient bait and supplies on hand to completely provision all member vessels once. A new container is order each month. The bait and supplies come from Taiwan, China, Indonesia, Japan and Korea. The containers are delivered to the warehouse, where they are off-loaded and the container returned within the day.
2. **Fuel.** VAK has established a fuel account with B&E Petroleum. As of this writing, there has not been a need for the cooperative to purchase its own fuel truck and hire a driver (a driver of a fuel truck must be commercially certified and take special safety classes), which VAK had originally envisioned. So the fuel company makes the deliveries, based on instructions from VAK HQ which is in touch with the vessels and knows when they are coming in. This system has been working well, with significantly less delay in delivery than when each vessel contracted it separately.

The result: the average time to turn a VAK member vessel around in port has been cut in half. Previously, vessels would be in port from 7-10 days to restock and do repairs. Now, VAK member vessels are turning around in 4-5 days. Based on average trip times of 21-28 days, this means that each VAK member vessel will be able to do at least one trip per year more than before becoming a member. Just one extra trip per year can improve profitability by as much as 10 percent for a single vessel.

Not only are the VAK members able to turn-around their vessels faster, but they report high satisfaction with the quality and price of the goods and the ease of delivery.

D. Purchase trucks and office equipment to assist vessel owners with equipment and fuel deliveries.

1. **Trucks.** VAK has purchased:
 - A 2000 Hino freezer container truck, used to delivery bait dockside to members.
 - A 1995 Nissan pick-up truck for general services.
 - A 1997 Chevrolet flat-bed truck, for large supply deliveries.
 - A 2000 Chevrolet crane truck for loading and off-loading vessels.

- A 2007 moped for errands in Kalihi.
2. **Office Equipment.** VAK built an enclosed office space within the warehouse which is air conditioned and free of the dust and noise of the warehouse. The office space has 2 complete desks with computers, and printer/fax/copy machines, one for Mr. Lu and one for the full-time administrative assistant. The office has a small meeting area for visitors to sit down, and an area for a second administrative assistant to help out with special projects.

In addition, although Mr. Nguyen still maintains an office in Kakaako for his S&H Marine Services, he has also established an office in the far end of the VAK warehouse. Mr. Nguyen has registered and started to use a new company name: VAK Marine Services.

E. Hire staff as required, e.g., an administrative assistant, truck driver, and delivery person.

Mr. Lu and Mr. Nguyen both have offices within the warehouse. Mr. Lu is at the warehouse full-time, six days a week unless working on his own fishing vessel when it is in port. Mr. Nguyen is mostly on the road taking care of boats and now maintains three support mechanics (see picture above) who assist him. Mr. Nguyen continues to provide mechanical services to the general public, but VAK members always take first priority.



Besides themselves, VAK now has a full-time staff of two, with an additional administrative employee working part-time. The full-time staff includes one administrative assistant, and one delivery/warehouse man. An additional delivery/warehouse man helps out when there are new containers of goods arriving, and a part-time administrative woman helps out with extra paperwork.

F. Establish a mechanical services support program.

The mechanical support services are working great. Mr. Nguyen's services are so popular it has been one of the main attractions of membership. Every member gets a free check-up after each trip and break-downs at sea have been greatly reduced. In fact, feedback on the mechanical support services is overwhelmingly

positive and members have not had a serious mechanical emergency at sea since implementation.

As part of the mechanical support program, VAK has acquired a good inventory of the most frequently needed parts for vessel repairs, including purchasing one entire vessel engine in the event of catastrophic failure. Most repairs can be accommodated immediately, without the usual wait for parts to be shipped.

Emergency Repair Kit. Each VAK member vessel receives an “Emergency Repair Kit”. This “kit” is a long time project of Mr. Nguyen and a service he has offered to his best customers and is now offering to all VAK members. These kits consist of the most common items needed to repair marine engines. The kit is specialized for each vessel, depending on the type of engine and other equipment on the boat. It is housed in a waterproof aluminum chest and typically has pumps, hoses, seals, gaskets, and other miscellaneous parts. If a VAK member has a mechanical problem at sea, Mr. Nguyen will contact them via single sideband radio from VAK headquarters in Kalihi and attempt to talk them through the repairs. Currently, approximately three-quarters of all VAK members have been outfitted with this kit and the remainder will have it by the end of June 2008. Mr. Nguyen estimates that with these emergency kits he can help captains solve over 50 percent of all problems at sea.

Radio Communication. The VAK Fisheries offices in Kalihi have become the headquarters for all coordination and communication for VAK member vessels. Mr. Kim Lu, as the CEO, tracks all arrivals and departures and helps each vessel turn-around as quickly as possible when in port. As noted above, the communication is also critical for emergency repairs at sea. ***Since VAK Fisheries started operating in September 2007, no VAK member vessel has needed towing.***

Safety. VAK Fisheries works with Dave Kokata, Fishing Vessel Safety Inspector, contracted by the U.S. Coast Guard to inspect all fishing vessels in line with Coast Guard licensing and safety regulations. Mr. Kokata has been invited to provide safety classes for VAK members at the VAK Fisheries headquarters. The VAK office has a large conference room set up for meetings and while it is almost impossible to get all VAK members together at once, because all vessels are never in port at the same time, in small groups Mr. Kokata will be providing workshops on Coast Guard regulations as well as general safety and emergency response techniques. To date, VAK has hosted 3 CPR classes and the first workshop for coast guard safety is slated for the summer of 2008.

Fleet Insurance. As a result of the much reduced insurance claims of members, VAK is currently negotiating with Business Insurance Services, the company that insures the majority of the longline fleet, to offer a special rate to all VAK members. As of this writing, Bob Gordon, the insurance agent, has reviewed VAK’s program and is in the process of providing a negotiated quote. He has stated that he cannot cull 15 members from the group of 67 longline vessels he

insures and provide them a separate rate. Therefore, he has committed to reducing the rate for ALL 67 companies in his group by at least 10 percent, and possibly as much as 20 percent. As each vessel pays approximately \$20,000 per year in insurance costs, this will be a welcomed and much needed reduction.

G. Purchase and provide each member a satellite phone and negotiated service plan.

VAK discovered each member already had a satellite phone that they did not want to discard and lose the number. Therefore, VAK has instead instituted a program to provide every member a \$500 satellite phone calling card each year. This is one of the benefits of membership stated in the membership agreement.

H. Utilize Professional Services as needed.

VAK has been fortunate to use the services of Dean Robb, a lawyer with Carlsmith Ball and a specialist in admiralty and corporate law. Mr. Robb has assisted with all of VAK's legal needs, including help with the Membership Participation Agreement. In addition, VAK hired an architect and contractor to help with the warehouse build-out permits and planning approvals for the site. VAK has also continued to use the services of their business consultant, Valerie Koenig with Business Plans Hawaii, to provide administrative and liaison support for the grant management.

In 2008 VAK plans to further utilize the services of Mr. Robb to determine if the company can qualify as a Chapter 421 Hawaii Agricultural Cooperative Association, a Hawaii state tax-exempt entity.

6. Describe how the objectives were met.

On every point the immediate objectives of the grant funds met and the funds stretched as far as possibly. Vessel turnaround in port showed almost immediate improvement upon start-up. Members are happy with the prices, quality and ease of delivery of the supplies, bait and fuel. The mechanical support program is providing immediate and tangible results in diminishing break-downs and emergency repairs. Overall, VAK is confident in saying that the 16 longline fishing members are stronger mechanically, better managed, and more financially viable than just a year and half ago.

In future years, the company hopes to further help by developing health insurance and pension programs, as well as by investigating new and better paying markets for Hawaii fish.

7. Discuss differences between work anticipated in your proposal and work that was actually completed.

There have been several issues that VAK did not anticipate.

One, not one of the "American" vessel owner/operators approached wanted to join VAK Fisheries. Approximately six such vessel owners were approached and

all declined, not seeing the value in the cooperative venture proposed. Mr. Lu believes they may see the cooperative as purely a Vietnamese/Korean venture and perhaps do not feel they need the same level of management assistance as those learning American business operations for the first time. Mr. Lu is adamant that the doors remain open to all those willing to join, and hopes some “American” vessel owners will join in the future.

Two, VAK has originally envisioned “cherry picking” the best operated vessels for membership, but were surprised to find that the best operated vessels had no desire to join. Not just the “Americans”, but many of the vessels Mr. Lu and Mr. Nguyen had targeted were not interested, feeling that the services were not worthwhile. Thus, instead of having a strong group of well-managed profitable vessels to begin, it was the worst operated and managed vessels that were interested in joining. These were all vessels that had mixed profitability and many of them had trouble paying the \$5,000 membership initiation fee (had to be delayed and paid in installments). Also, many of these members had debts with previous suppliers of bait, supply, fuel and mechanical services and needed help to manage their finances overall. Thus, the current membership reflects the neediest vessels of the Oahu longline fleet, not the opposite.

Three, VAK was surprised to find that many of the members needed help with business filings, permits, licenses, etc... Many had only elementary English language skills and others were simply intimidated by government forms, tax filings, permit applications and other license and safety requirements they are mandated to maintain. Mr. Lu quickly became a resource for these owners, helping them with a myriad of basic business requirements that either their language or practical skills could not follow.

A huge example of this third unanticipated outcome occurred when the Department of Homeland Security, U.S. Customs and Border Protection, working through the U.S. Coast Guard (now part of DHS), instituted a new bonding and immigration program, announced in April 2007 and taking effect in August 1, 2007. Under the new program, all vessel operators with foreign crew (all of the longline fleet) had to acquire a \$50,000 International Carrier Bond. In addition, each vessel had to convey new forms regarding their foreign crews and additional new forms immediately every time the foreign crew was changed (usually done at Fanning Island in international waters). Failure to do so would result in significant fines and possible seizure of the vessel and the crew. The new rules caused an uproar in the longline community and many of the operators who speak English as a second language were fearful of the changes. These changes also greatly affect how the foreign crews can be housed (or not) while the vessel is in dry dock for repairs, typically once a year for each vessel.

Mr. Lu met with the head of Customs and Border Protection in Honolulu, Chief Inspector Creighton Goldsmith, and explained the operations at VAK. By providing all information regarding the coop’s operations and documentation, VAK has been allowed to serve as the administrative center for all VAK member

vessels, ensuring that all forms regarding foreign crews are submitted immediately upon change of personnel, as required by the law. (The members radio the changes at sea to VAK HQ and Mr. Lu submits the forms to Honolulu Customs by fax.)

Although the new bonding rule was enacted too rapidly to organize help in 2007, in 2008 VAK is applying and expects to receive a blanket bond covering all VAK members, reducing their cost from approximately \$1,000 per year each to less than \$500. And VAK will take care of all the paperwork.

More importantly is the immigration compliance issue. Recently, a longline vessel (not a VAK member!) was fined \$25,000 for not having filed the forms for their crew in a timely manner. If the vessel receives a second fine, it risks seizure. VAK takes care of this paperwork for all members. The information is provided via radio to VAK when the vessels make any crew changes and VAK fills out the forms and faxes them to Customs & Border Protection.

The bonding and immigration issue is the best example of the unanticipated paperwork VAK helps members with, but it is not the only one. Mr. Lu finds himself approached almost daily for assistance with a variety of business issues, including tax and DCCA filings, coast guard safety rules and permits, and other English language documents the members bring to him to help understand.

Mr. Nguyen also generously provides assistance for the boat maintenance and operations above and beyond the safety check provided after each trip. All of the VAK member vessels are running more smoothly because of the complete and preventive care provided. Mr. Nguyen also helps members with long-term care, encouraging owners to put aside a portion of their earnings for new engines and other major upgrades to their boats.

8. Discuss differences between expected and actual costs.

The main difference was between the estimated and actual costs of building out the warehouse, especially the walk-in freezer. “Smaller” items, such as the freezer door and the roll-up door to enter the warehouse, were much more than expected. The cost estimate in the grant application was \$130,000. In fact, even doing most of the labor themselves and using friends and colleagues, the final cost for materials and casual labor for the warehouse build-out were over \$200,000. VAK Fisheries obtained a \$150,000 loan and a \$100,000 line of credit from American Savings Bank, which was needed for the build-out as well as the start-up inventory.

Cash flow remains a significant issue, as large supply orders must be paid up-front with letters of credit, but members are provided 21 days credit (and liberal laxity thereafter, as needed). To date, neither Mr. Lu nor Mr. Nguyen has received a single dime in salary or compensation of any sort for their time. All profits from the sale of supplies, bait and fuel have been poured back into the

company. Of course, their own vessels are reaping the rewards of membership, which they tell to all new members.

The founders honestly enjoy helping their colleagues and look forward to the day when VAK Fisheries is a premier business organization to which all Oahu longline vessels wish to belong.

Attachments:

1. **VAK Participation Agreement**
2. **Title for Trucks in name of VAK Fisheries**
3. **Final Tax Clearance Certificate**
4. **Final Invoice**