State forecasts $1.89 billion deficit, oil tax change is not to blame

By Tim Bradner
Alaska Economic Report

Here’s some sobering news: Thanks to faster-than-expected declines in oil production and lower-than-expected oil prices, state oil revenues will take a big hit in the current fiscal year. The outlook for next year isn’t any better.

Don’t blame the oil tax change in Senate Bill 21. Surprisingly, revenue forecasters now say the tax change will have negligible effects on income compared with the previous tax, mainly because of lower oil prices. The expectation now is that the state will suffer a $1.8 billion deficit this year, up from a $667 million deficit estimated last May. Luckily, we have an ample cash reserve to cushion the blow, but the expected draws on reserves this year and next will be hefty.

Surprisingly, a new oil and gas production tax adopted by the Legislature last spring will have negligible effects on state revenues compared with the old tax, according to the Department of Revenue’s December forecast. The new tax, enacted by SB 21, takes effect January 1 and replaces the current tax, known as ACES. A key feature of ACES is a “progressivity” formula that hikes the tax rate at higher oil prices. When oil prices are lower, the formula reduces taxes. Because the new forecast assumes an average oil sales price in the current fiscal year of $105.68 per barrel, down from a $109.61 per barrel price estimate used in the spring forecast, the effect is to reduce the average per-barrel tax rate under ACES, had the tax been in effect for the full Fiscal Year 2014.

Interestingly the average estimated tax rate under the new SB 21 tax is higher, at 35 percent, than the 34.9 percent average tax rate estimated if ACES were to remain in effect for the year, according to the estimate. The same thing would happen next year, Fiscal Year 2015, beginning July 1. For that year, the SB 21 tax rate will be 35 percent while the estimated tax rate for ACES would be 32.6 percent. The higher effective rate under SB 21 is mainly because the new tax has a flat rate of 35 percent while the ACES base tax rate is 25 percent, but is adjusted by the progressivity formula. If oil prices are high the effective tax rate is higher. If prices go down, the effective tax rate drops. That has now happened.

Much of the criticism of the SB 21 tax change – the charge of a $2 billion “giveaway” – is based on assumptions of higher oil prices. In that case, the ACES tax would indeed bring in more revenue.

The new forecast predicts significant declines in Alaska’s oil tax and royalty revenues over the next two years. Unrestricted oil and gas revenues totaled $6.35 billion last fiscal year and are now estimated at $4.35 billion in the current year and $3.93 billion next year. Alaska depends on oil revenues to pay about 90 percent of its budget, as there are few non-petroleum taxes and virtually

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This edition sponsored by: Lynden and Pebble Partnership
The Resource Development Council's very own Carl Portman was the distinguished recipient of the North Star Award at the Alaska Chamber's 54th Annual Conference, recently held in Fairbanks.

When merited, the Alaska Chamber grants the North Star Award to an individual or organization in Alaska, who through a special project, action, or concern, developed or pursued the endeavor for the betterment of all Alaska residents. These individuals or organizations provide a significant contribution to the future of Alaska.

Portman, a life-long Alaskan, was recognized for his lifetime of service in responsible resource development to support and encourage economic growth in the state of Alaska. His efforts have benefitted not only RDC and all resource development industries, but every Alaskan as well. He has devoted his entire professional career to responsible economic development and environmental protection, working to ensure Alaska’s resources were developed in a manner consistent with the state’s Constitutional mandate of maximum use consistent with the public interest.

Congratulations Carl!
RDC has prepared an amicus (friend of the court) brief in support of a coal mining company operating in West Virginia – Mingo Logan Coal Company. Mingo Logan has petitioned the U.S. Supreme court to reconsider an April 2013 decision by the lower D.C. Circuit Court that threatens to wreak havoc on the economy of Alaska. The court concluded that years after a Clean Water Act section 404 permit had been issued by the U.S. Army Corps of Engineers, the Environmental Protection Agency (EPA), using its 404(c) authority, can essentially deem the permit invalid, even after the permit terms and conditions have been complied with and millions of dollars have been invested.

RDC believes the lower district court got it right, characterizing the EPA’s assertion of authority to withdraw the specification of certain areas as disposal sites from the permit at any time, without limitation, “a stunning power for an agency to arrogate to itself when there is absolutely no mention of it in the statute,” and concluded that it was “unreasonable to sow a lack of certainty into a system that was expressly intended to provide finality.” EPA appealed, and unfortunately the D.C. Circuit reversed.

So why would RDC care enough about a case in West Virginia some 4,000 miles away to enter the fray? Because the D.C. Circuit Court’s decision threatens to undermine the ability to maintain a civil society and economy in Alaska. While it may sound overly dramatic, consider that the U.S. Fish and Wildlife Service estimates 175 million acres, or 43 percent of Alaska’s land mass, is considered wetlands, or in regulatory speak, “waters of the United States.” Any development requiring dredging or filling of wetlands – be it a road, house, school, church, oil production pad, mine, harbor, boat ramp, or driveway – requires a Clean Water Act “section 404” permit. Unless overturned, this ruling means the EPA can essentially veto a permit years after it has been issued, even under full compliance.

With so many wetlands in Alaska, 404 permitting is part of the cost of doing business for municipalities, tribes, Alaska Native Corporations, private landowners, state agencies and developers of vital resource development projects that help fuel our economy. It can take years and millions of dollars in studies, designs, compensatory mitigation, and legal costs to obtain the legal right to dredge or fill wetlands.

Up until now, getting through this exhaustive process and securing a 404 permit meant removing the uncertainty involved in the federal regulation and enforcement authority that can run up to $37,500 a day in civil penalties for unauthorized discharges, and double to up to $75,000 per day if a person fails to adhere to an EPA compliance order.

Uncertainty deters investment. The U.S. Chamber of Commerce and others submitted a report to the Circuit Court by University of California Berkeley Professor David Sunding. Dr. Sunding concludes that the uncertainty created by a one percent chance a permit could be revoked after it was issued lowers the cost benefit of the project by 17.5 percent. A two percent chance of an EPA retroactive adverse decision results in a 30 percent decrease. Consider the many controversial resource development and infrastructure projects in Alaska and it becomes obvious that the mere existence of this broad EPA authority will deter investment to the detriment of Alaska’s economy and the well being of its citizens.

Moreover, consider what a compliance order might look like after the fill is already in place and your house, school or church is already built. You build your driveway and your house in accordance with permit conditions, this includes paying a fee, complying and contributing to a mitigation bank to offset the loss of wetlands, however slight. Years later the EPA withdraws the specified fill area and you now have a house you can’t sell, potential fines, significant legal fees, and the prospect of removing your home.

It may sound far fetched but the only real change between the time the EPA agreed to specified fill disposal areas in the Mingo Logan 404 permit, and its about face withdrawal of 88 percent of the permit's specified disposal sites, appears to be a change in administration. Armed with such unchecked EPA authority, consider what a future administration with a disdain for urban development or North Slope oil production might do.

I don't want to wait to find out what the current or future administrations might do with such unbridled retroactive authority. My hope is that RDC’s brief will compel the higher court to hear the case.

Eleven other concerned parties nationwide, including Alaska and a coalition of states, a multitude of trade associations and affected businesses, are also filing briefs in support of Mingo Logan. It’s an uphill battle considering the Justices hear about one percent of the cases put before them, but it’s too important to not speak up.
Big decline in oil production, better news on horizon

(Continued from page 1)

no taxes on citizens. With the lower revenue estimate released in early December, the state is expected to incur a $1.89 billion deficit in the current year. However, the state has reserves of approximately $16 billion set aside in funds for just such contingencies.

As for North Slope oil production, that declined 8.3 percent in the state’s last fiscal year compared with the previous year, but state forecasters now expect a four percent decline this year and are estimating two percent annual declines in both of the next two years. Revenue officials told us that last year’s steep decline was caused by lower well productivity in North Slope fields, more numerous summer shutdowns of production facilities for maintenance and use of more natural gas liquids production for in-field use in Enhanced Oil Recovery.

Actual North Slope production averaged 531,600 barrels per day in state Fiscal Year 2013, which ended June 30. In the Fiscal Year 2012, production averaged 579,400 b/d. The new forecast for FY 2014, the current fiscal year, is 508,200 b/d. This represents a drop from the estimate made last spring for 2014, which was 526,000 b/d.

Better news: Forecasters expect the decline to soften to four percent as result of new production from increased drilling by North Slope operators. Four additional rigs are being added in response to the Legislature’s action last spring changing the state production tax. More production is expected in the following years as a result of new drill sites ConocoPhillips has planned, also a result of the tax change.

Another positive note in the forecast are the projections of increasing Cook Inlet production due to intensive redevelopment work in aging fields by independents. The Department of Revenue expects production to exceed an average of 13,500 b/d in the current fiscal year, a 52 percent increase since 2010. The upward trend for Cook Inlet is likely to continue, the department said.

Tim Bradner publishes the Alaska Economic Report.

RDC tours the Donlin Gold project in Southwest Alaska

Tour participants include from left to right Stan Hooley, Iditarod; John MacKinnon, Associated General Contractors of Alaska; Rebecca Logan, the Alliance; Rick Rogers, RDC; Rachael Petro, Alaska Chamber; Stan Foo, Donlin Gold LLC; Jerry Mackie, lobbyist, and Marleanna Hall, RDC.

By Marleanna Hall

RDC staff and several local industry trade association leaders recently toured the Donlin Gold LLC project site, receiving a hands-on perspective of the proposed project.

The Donlin Gold project is located in Southwest Alaska, approximately 277 miles west of Anchorage. It is located in a region of Alaska that experiences high unemployment.

The project is on surface land owned by The Kuskokwim Corporation, and the subsurface owned by Calista Corporation. The project is in the early phase of the permitting process, and a Draft Environmental Impact Statement is expected in 2014.

The group was hosted by RDC board member and Donlin Gold General Manager Stan Foo, and Kurt Parkan, External Affairs Manager for Donlin. Foo and Parkan explained the proposed project designs, as well as demonstrated the areas of the project that would be designed for wasterock and tailings.

The group also visited the camp site facilities, viewed drilling sites, and flew over the nearby community of Crooked Creek.

The project is expected to take three to four years to construct, and projected to produce 1.1 million ounces of gold per year for over 27 years. During the construction phase, about 3,000 jobs will pay $375 million in annual wages. During the 27+ year production life, 600-1,400 jobs will pay $97 million annually.

Through the exploration stages, Donlin has shown a strong commitment to local hire and for supporting communities and cultures in the region. About 90% of onsite employees have been Calista shareholders or descendants.

Recently, the State of Alaska Department of Labor nominated Donlin Gold for the 2013 National Employer of the Year, and Donlin received the award by the National Association of State Workforce Agencies.

This award recognizes a business for accomplishments resulting in a positive impact on its workforce, industry, and community.
Pebble and Alaska: the investment case

Editor’s Note: Northern Dynasty Minerals President Ron Thiessen was a keynote speaker at RDC’s Alaska Resources Conference in November. The following is a condensed version of his speech, which is available at akrdc.org/membership/events/conference/2013/presentations/.

When Anglo American announced its withdrawal from the Pebble Partnership (PLP) in September, opponents of responsible mineral development mistakenly portrayed their departure as the end of the road for one of the world’s most important undeveloped copper and gold resources.

However, Anglo American CEO Mark Cutifani has made it clear that the decision to withdraw was not based on the permitability of the Pebble Project, or any concern that Pebble would harm the Bristol Bay fishery. Anglo America’s decision was based solely on the outcome of its asset review process, and its stated desire to reduce spending on projects in pre-approval phases of development. Under the terms of the Pebble Limited Partnership Agreement, Anglo American was required to continue with the level of project funding necessary to proceed with permitting for four or more years followed by timely project construction, or to withdraw.

Cutifani has also said Pebble remains a project of merit that can and should be built. Anglo American still believes in Pebble because it is a world class project that will generate decades of benefits for Alaska, while protecting the important fisheries resources of Bristol Bay.

Pebble represents a tremendous asset for the future of Alaska and its economy. It is an asset owned by the State of Alaska, for the benefit of Alaskans and fortunately the rest of the United States. A recent economic impact study commissioned by PLP and authored by IHS Global Insight outlined the Pebble Project’s potential economic contributions during production, including:

• nearly 3,000 high-wage jobs for generations of Alaskans;
• more than $100,000 annual salaries for mine workers – double the State average;
• more than doubling Alaska’s mining industry contributions to State government coffers, including payments to the Permanent Fund;
• more than $1 billion annually in operating expenditures, expanding the State’s GDP by some 3 percent.

Since September, Northern Dynasty has been working with Anglo American to effect a timely withdrawal for Anglo and an orderly transition for Pebble. While that process has been difficult for many Pebble employees and contractors, Anglo American (over the past six years) has been a valued investor in Pebble and Alaska. Its contributions of technical expertise and $600 million of investment have significantly advanced engineering design, environmental science and regulatory planning for Pebble.

Now Pebble’s sole owner, Northern Dynasty’s focus is on qualifying and selecting the next major partner in Pebble and investor in Alaska – based on financial resources, technical expertise, experience working in the United States and a commitment to environmental stewardship and stakeholder relations. Our goal is to develop the Pebble resource in full partnership with Alaska Native communities, and we want a partner that shares that goal. Working with John Shively and the Pebble team, we have every confidence we will be successful.

Located on State of Alaska land in an area specifically designated for mineral exploration and development, the Pebble deposit is an asset of rare and historic significance. Its responsible development over decades of production, in partnership with Alaska Native communities and in co-existence with Bristol Bay’s famous salmon fisheries, is an opportunity coveted by many of the world’s great mining companies.

PLP’s work to finalize a permit application package for Pebble is nearing completion, and we expect to be in a position to initiate federal and state permitting under the National Environmental Policy Act as early as the first quarter of 2014. However, until the process of selecting the right partner for Pebble and the right investor for Alaska is more advanced, we won’t make a decision on the timing for applying for permits. But we will be ready.

There is no doubt that Anglo American’s withdrawal is tough news for Alaska. The global minerals industry is facing serious financial challenges today, as a result of scarce capital, weaker commodity prices and investor dissatisfaction. But mining is a notoriously cyclical business, such that the next great surge in mineral commodity prices and mining investment is being sown in the current bear market environment.

The question is: will Alaska and the Pebble Project be positioned to benefit from the coming bull market in metal commodities and mining investment? For our part, Northern Dynasty has every confidence in Pebble. We look forward to 2014 and to welcoming the next major resource investor in Alaska – in her people, her communities, her economy and the future of the State’s mining industry.
Alaska’s mining industry endures tough year

By Marleanna Hall

This year was a tough one for the mining industry in Alaska, noted RDC board member Karen Matthias, who also serves as the Managing Consultant of the Council of Alaska Producers.

“2013 was not a great year for mining in Alaska . . . investment dollars are scare, Anglo American left the state, Nixon Fork stopped production, the EPA has been flexing it’s muscles, litigation drags on, and metal prices are down,” said Matthias, who spoke at the RDC Alaska Resources Conference in November.

“But, miners are tenacious, because Alaska has rich potential and we know that mining is an important part of Alaska’s economic future.”

Mining continues to provide 4,800 direct jobs in Alaska, with an average wage of $100,000. These are year round jobs, in 120 communities across Alaska.

But mining doesn’t just provide jobs, it makes $500 million in purchases of goods and services with Alaska businesses.

“More than $2 billion has been spent on dozens of exploration projects over the last 30 years,” explained Matthias. “But we only have six large mines, that gives you perspective of how much goes into mining.”

Matthias highlighted the six large producing mines in Alaska, including metals, minerals, and coal.

The Red Dog Mine, one of the largest zinc mine’s in the world, is a partnership between Teck and NANA Regional Corporation.

The Fort Knox gold mine has 635 employees who all reside in the Fairbanks North Star Borough.

Usibelli Coal Mine is still Alaska’s only operating coal mine. The clean burning coal provides about 40% of energy for heating and electricity in Interior Alaska.

Sumitomo Metal Mining’s Pogo Mine is a world-class high-grade underground gold mine. Last year, Pogo spent $127 million with almost 300 Alaska vendors and contractors.

Coeur Alaska’s Kensington Gold Mine and Helca Greens Creek silver mine are two other underground mines, located in Southeast Alaska. These two mines are the largest private employers as well the largest property tax payers in Juneau.

Many of the advanced projects in Alaska have great potential, and could provide jobs and benefits to local communities. All of these projects face many challenges of the high costs of working in remote areas, from the lack of infrastructure, the high cost of fuel, high transportation costs, and the lack of workforce development. All industries face similar challenges.

Permitting is also a challenge. However, the State of Alaska “has made a real effort to streamlining and improving its permitting process,” said Matthias. “I didn’t say make it easier. We believe that there should be a rigorous process and it should be transparent, consistent and thorough. Unfortunately, as you know, on the federal side, the opposite is true. The EPA’s Bristol Bay watershed assessment was unscientific and unprecedented.”

Matthias noted when the government makes or even considers a preemptive decision it weakens due process, making Alaska and the nation less competitive.

Minerals and metals are in everything people use in everyday life, explained Matthias. However, there is a real disconnect between our everyday use of the products of mining and the mining itself, and the result is public perception can impact mining operations and Alaskan jobs.

“We all need mining,” stated Matthias.

“Whether you work in mining or not,” said Matthias, “help people understand that we need mining, that it can be done responsibly, and it is being done responsibly in Alaska.”

Regulatory regime boosts tourism

By Marleanna Hall

Tourism in Alaska this year was strong, aided by a more favorable regulatory environment and tax policy, said Ralph Samuels, RDC board vice president and Vice President, Government and Community Relations, Holland America Line. Samuels spoke at the Alaska Resources Conference in November.

About half of the visitors to Alaska come on a cruise ship each year, with many returning to Alaska after having previously taken a cruise. In 2013, approximately 937,000 people traveled to Alaska on a cruise ship.

Samuels explained he often sees a statement that tourism numbers in Alaska are recovering from the recession. “That is fundamentally an incorrect statement,” Samuels said. “The numbers dropped because ships left Alaska and went somewhere else.”

The cruise industry is the driver for bringing people to Alaska. Ships hauled the same number of people, Samuels explained, they just didn’t come to Alaska.

The regulatory environment and tax policy in Alaska changed, forcing the industry to redirect ships to other destinations. In 2010, Governor Parnell and the legislature lowered the tax, and the regulatory environment changed to something far more reasonable, said Samuels. We don’t agree on everything with our partners in government, but “we feel we get a fair shot,” Samuels stated. “We can have a conversation on any subject.”

Joint partnerships between industry and government are working on projects like the South Denali Visitor Center, in an effort to grow the pie of tourism in Alaska.

But its not all good, Samuels explained. The National Marine Fisheries Service has begun a review on the Alaska harbor seal. Industry has encouraged NMFS to wait until studies are completed on the seal before moving forward with a rule making.

Tourism has an economic impact to Alaska of $3.72 billion, and provides 37,800 jobs annually. Taxes from the tourism industry, including bed taxes, pay boroughs, municipalities, and the state.

2012-13 Alaska Visitor Volume by Transportation Market

<table>
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<tr>
<th></th>
<th>Total Visitors</th>
<th>Air</th>
<th>Highway Ferry</th>
<th>832,600</th>
<th>47.1%</th>
<th>0.2%</th>
<th>80,700</th>
<th>4.9%</th>
<th>937,000</th>
<th>48.4%</th>
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<td>May 1, 2012 to April 30, 2013</td>
<td>1,849,700</td>
<td>832,600</td>
<td>47.1%</td>
<td>0.2%</td>
<td>80,700</td>
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Karen Matthias
Innovation drives Alaska seafood industry

By Kati Capozzi

At this year’s Alaska Resources Conference, Westward Fishing Company President Greg Baker provided an overview on Alaska’s seafood industry, a sector that produces enviable statistics that make this flourishing renewable resource one, that if continued to be managed properly, will successfully continue well into the future.

Baker began the presentation by outlining some seafood industry facts. The fishing industry continues to be Alaska’s largest private sector employer, with over 80,000 direct and indirect seasonal and full-time jobs. It also accounts for 60 percent of the United States’ commercial seafood harvest.

Another topic Baker addressed is the hot button issue of sustainability, and what the word ‘sustainable’ really means.

“It’s a word that gets used a lot, we see it all of the time in the media,” Baker said. “It’s one of those words that can mean whatever you want it to mean in the moment,” Baker added. “And when it comes to resource management it can be misused a little bit. But in our case, it’s a term that works very well,” Baker pointed out, referencing Alaska’s world recognized model of sustainability.

Baker emphasized this by showing a slide using the total biomass of the groundfish fishery in the Bering Sea and Aleutian Islands and the self-imposed total allowable catch that the industry set for itself over 30 years ago. Baker indicated that while there have been many years that industry could have safely caught more fish, they continue to follow the conservative cap set in the 1970s.

The self-management standard of fisheries in the U.S. is a “model of the way to manage resources. The government has established the broad parameters that fit the public needs, but they leave it to industry to figure out the most effective way to harvest those resources,” said Baker.

Innovation continues to positively impact the seafood industry in many ways.

Reducing unintended bycatch is important to anyone sharing the fishery resource in Alaska and the innovative progress being made to assist in that effort is constantly ongoing. Excluder nets, which reduce unintended salmon bycatch by 40 to 60 percent, are one example. Another industry driven innovation is the real time reporting of bycatch. Boats will send in their data with numbers of intended fish caught as well as unintended and to a co-operative and, if necessary, will then disseminate that information to their fleet, indicating the exact location of an area that they need to avoid due to high bycatch numbers. This contractual and efficient management system enables fleets to quickly move to or from areas that will be most beneficial to them as well protecting all resources within Alaska’s fishery.

Baker noted Alaska’s seafood industry has been blessed with sound resources, the fish continue to be managed conservatively to ensure ongoing sustainability, and that bycatch is continually being monitored and improved upon.

Some rays of light for forest products industry

By Carl Portman

The federal government and special interests from outside Alaska are largely responsible for the long-term decline in Southeast Alaska’s forest products industry, charged Shelly Wright, the Executive Director of Southeast Conference.

Speaking at the Alaska Resources Conference on the status of the forest industry, Wright said “the political climate is grim and the forces of power are against us.” However, she said there are some rays of light shining through the gloom, including efforts by Governor Parnell and the congressional delegation to transfer some acreage from the Tongass National Forest to the state for management. Biomass is also becoming an acceptable alternative to heating fuel and forest products are being made from local timber without causing harm to the forest.

Moreover, harvest activity in the Tongass in 2013 was nearly double the level of 2012, growing from 21 million board feet (mmbf) to 36.3 mmbf in 2013. However, the latest harvest is still drastically under the harvest ceiling of 267 mmbf per year and an average cut of 450 mmbf prior to 1990.

Overall, only 180 mmbf was harvested in Alaska this year, including 21 million acres on state land. Timber harvests on private land reached 120 mmbf.

The U.S. Forest Service plans on awarding 102 mmbf of timber in the Tongass next year through the Big Thorne timber sale, which is currently being held up by an appeal by environmental groups, Wright noted.

She warned that timber harvests statewide could fall by 50 mmbf in 2014 on private lands if the Sealaska lands bill fails to clear Congress. Wright explained that the Sealaska Corporation is the largest harvester in Southeast Alaska and it could lose its logging contractors if the bill does not move.

Wright noted that wood remains an important renewable energy source for Alaskans with 100,000 cords harvested this year for residential space heating statewide. Increases in oil prices have raised interest in using sawdust and wood wastes as fuel for lumber drying, space heating, and small scale power production. Wood boilers have been installed across the state and 40 projects in other communities are under consideration.

Interest in manufacturing wood pellets continues to rise, Wright said, noting that the largest facility, Superior Pellets, is located in North Pole and is capable of producing 30,000 tons of pellets per year.

Wright reported that the Southeast Conference is working on an alternative management strategy for the Tongass in hopes the Forest Service will incorporate it into a new management plan for the forest.

“The strategy could conceivably change the entire dynamic of the Tongass,” Wright said. “By managing the timberland that has not been set aside by statute, it is possible to maintain and increase old-growth habitat while simultaneously increasing timber harvests and improving access for recreation, mining, energy, and other activities.”
The state’s new oil production tax regime has put Alaska back on the global energy map for new industry investment, said Trond-Erik Johansen of ConocoPhillips Alaska. He noted the total government take under the new tax will fall to 67 percent in 2014.

NANA Regional Corporation’s President Marie Greene addressed efforts to responsibly develop natural resources in Northwest Alaska. She noted the Red Dog Mine will celebrate its 25th anniversary in 2014.

Andrew Guy, President of Calista Corporation, pointed out that the majority of the state’s natural resources are located in isolated areas of rural Alaska where affordable energy, basic infrastructure and transportation access are big challenges.

With regard to offshore oil and gas development, “Arctic regulatory uncertainty leads to producer hesitation,” said Randall Luthi, President of the National Ocean Industries Association.

BP’s Dave Lachance said that the recent revision to Alaska’s oil production tax has encouraged his company and its partners to ramp up new projects on the North Slope. In 2012, BP operated five drill rigs. By the end of 2016, it plans to operate nine. The company is evaluating additional investments.

Tommy Beaudreau, the Director of the Bureau of Ocean Industry Management, said “although there are significant operational and environmental challenges, the resource potential is enormous” in the Chukchi Sea.

ExxonMobil’s Richard Guerrant, said the time has come for government and producers to come together to ensure the Alaska LNG Project has a place in global markets. He said durable fiscal terms are needed for the project to move forward.

John Shively, CEO of the Pebble Partnership, noted the Bristol Bay Borough has lost 30.6 percent of its population between 2000 and 2010. Currently there are few employment opportunities in the area, but Pebble could generate thousands of jobs.

Teamsters Local 959 President Rick Boyles joined Doug Smith of Little Red Services and Maynard Gates of Alaska Steel to discuss how oil production tax reform is already benefitting Alaska businesses and the economy.
Guest Opinion – Frank Murkowski

Time to return to multiple use on the Tongass National Forest

The Clinton Administration imposed the Roadless Rule on the Tongass in 2001. The Forest Service’s failure to correctly describe the volume of timber needed to meet market demand in the 1997 Tongass Land Management Plan Environmental Impact Statement caused the Ninth Circuit to enjoin most timber sales associated with the Plan in 2005, pending a new Forest Plan which was produced in 2008. Now Secretary of Agriculture Thomas Vilsack wants to significantly amend the 2008 Forest Plan by directing a 10-15 year transition to second growth timber.

Along with terminating the long term pulp mill contracts, and modifying its domestic manufacture policy (which in the 1970s provided 4,500 direct jobs in Southeast), each of the actions mentioned above has been a disaster for the timber industry and Southeast Alaska. There are fewer sawmills now than in 1900, and far less volume harvested.

Amending the Forest Plan, as the Secretary proposes will cause the greatest harm of all. This is because the purpose of the transition to second growth is a blatant attempt to prevent entry into Roadless Areas, which the current Forest Plan allows. This policy will not only adversely affect timber, but renewable energy development, including hydropower and geothermal, and mining as well. Restricting access in this way effectively destroys multiple use of the Tongass.

Because of these terrible impacts, Governor Parnell appealed the Court’s 2011 reversal of the Exemption to the Roadless Rule that my Administration negotiated in 2003. He has re-filed the lawsuit against application of the Roadless Rule to the Tongass that Governor Knowles originally filed in 2001. The congressional delegation has introduced legislation in the House and the Senate to set aside application of the Roadless Rule to the Tongass.

Instead, of reinforcing the Roadless Rule, Secretary Vilsack should engage in rulemaking to correct the errors the Court found in the 2003 Department of Agriculture rulemaking that exempted the Tongass pursuant to the July 2003 settlement agreement that my Administration negotiated with the Justice Department.

The premise of the Secretary’s directive that the Forest Service can prohibit entry to the 9.6 million acres of Roadless Areas because there will be sufficient second growth available to support a viable timber industry in 10-15 years is simply false for the following reasons:

1. When he first proposed this idea to the Tongass Futures Roundtable in May 2010, courageous Tongass-based Forest Service employees told him that it would not work. That is why no effort was made to amend the Forest Plan to implement the Transition then;

2. His apparent belief that environmental groups will support harvest of old growth timber outside of Roadless Areas (to allow the 10-15 years which even he agrees is necessary) is belied by the seven administrative appeals of the Big Thorne Sale, which has delayed the award of that Sale to who knows when;

3. A significant portion of the second growth inventory is located in the 1,000 foot coastal buffer zones and stream buffers where the old time loggers first started. The Forest Plan and the Tongass Timber reform Act preclude timber harvest in those areas;

4. The National Forest Management Act prohibits the harvesting of timber until it is mature. In the Tongass that is 90-100 years. The oldest second growth we have (other than on Admiralty Island) is 60 years old. Even Secretary Vilsack admits in his July 2, 2013 Directive that Congress will have to change the law to allow the transition;

5. Preventing timber harvest before a stand matures was a key demand achieved by national environmental groups in the NFMA in 1976. Secretary Vilsack knows that they will not agree to it. That’s why he plans to amend the Forest Plan before attempting the change needed in the NFMA to make it work;

6. At page 23, the 2010 Economic Analysis of Southeast Alaska, which analyzed the Secretary’s Transition Plan, it states "young growth management is not currently economically viable without substantial public investments to pay for thinning. Given fiscal constraints, where’s the money coming from to pay for this? Secretary Vilsack knows that Congress will not agree to it. That’s why he plans to amend the Forest Plan before attempting to obtain the appropriations needed to make it work.

What is Secretary Vilsack’s reason for taking such an irresponsible and reckless position regarding the Tongass? Is he taking the same personal interest in other National Forests? Is it coming from him or from environmental groups pressuring the White House?

Frank Murkowski is a former Governor of Alaska.

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Guest Opinion - Arni Thompson

Fish and Oil
Collaboration in the Port of Valdez and Cook Inlet

By Arni Thompson, Executive Director, Alaska Salmon Alliance

At the 34th Annual Alaska Resources Conference, RDC board member Tom Barrett, President of Alyeska Pipeline Service Company, and Mayor David Cobb of Valdez, summarized their combined near 60 years of experience with the development of working relationships between commercial and sport fisheries and oil terminal operation in Valdez. It was a great panel and I’d like to expand on the unique Alaska phenomenon that has taken place not only in Valdez but Cook Inlet as well.

A snapshot of collaboration is easy to imagine. Against a background of the Petro Star Refinery, adjacent to the Solomon Falls salmon hatchery, which in turn is adjacent to the Valdez Terminal, on the opening day there will be 100 salmon seiners in the inner harbor making sets for pink salmon. Scheduled openings occur until mid-August, when the seine fleet is replaced with an even larger number of sport boats fishing for coho on the other side of the harbor, and down the coast. The only commercial seiners visible are those that are tied to the floats in the boat harbor.

A gentlemen’s agreement has been in place for many years that is embedded in the management strategy of the Valdez Fisheries Development Association, which operates under the Alaska Department of Fish and Game’s (ADFG) approved management plan, that governs sport and commercial harvests of coho. It simply states: “ADFG manages the port of Valdez to reduce conflicts between commercial and sport user groups by excluding commercial fishing within the Port of Valdez and the Valdez Narrows from August 15 to Labor Day.”

Collaboration between oil and gas and fisheries in maritime waters in Alaska began as early as 1964 near Kenai in Cook Inlet, with the beginning of oil and gas production from the first offshore platform. Since then, over 16 billion barrels of oil has travelled through TAPS and for Cook Inlet, 1.3 billion barrels of oil and trillions of cubic feet of gas have been produced. Taxes paid by oil and gas companies over this period of time comprise over 90 percent of State revenue and Alaska has become the most tax-free state in the Union.

At the same time, salmon resources utilized by Alaskan residents, both sport, commercial and subsistence harvesters, continue to yield healthy surpluses that provide both personal enjoyment and economic stimulus in coastal communities throughout Southcentral Alaska.

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In Cook Inlet, over 550 salmon drift gill net and 660 set net salmon businesses still work hard to harvest world quality salmon in the shadow of their oil and gas industry neighbors. In fact, it is not uncommon to see an oil tanker jog near drift gillnetters as they prepare to call at the Kenai Pipeline dock in Nikiski. Another amazing scene is the occasional LNG ship calling at the ConocoPhillips LNG export dock as a set net skiff of young Alaskans heads to the beach after picking nearby salmon set nets.

In 1977 in Prince William Sound and the Port of Valdez, with the opening of the Trans-Alaska Pipeline and the Valdez Terminal, lifestyles forever changed with increased vessel traffic and fears of conflict among industries. Despite the tragic Exxon Valdez oil spill and the challenges of lingering effects, this year the commercial pink salmon harvest was a near record 25 million fish. In addition, 400,000 coho returned after being incubated and released by the hatchery for Alaskan sport fishermen.

On the seafood industry side of the balance sheet in the Cook Inlet and Prince William Sound region alone, a 2013 Alaska Seafood Marketing Institute report shows $430 million worth of seafood was harvested in 2011 (in first wholesale, export value terms). The seafood industry directly employs in the region an estimated 10,500 individuals and generates an estimated $164 million in labor income. When indirect and induced impacts are taken into account, the total number of workers increases by an additional 7,600 and the payroll is an estimated $304 million.

Over the years, the oil production and transportation industry and shippers have successfully utilized the knowledge of local fishermen in developing strategies and systems to combat marine oil spills. In addition, local knowledge of communities and stakeholders are channeled through industry sponsored Regional Citizen Advisory Councils in both Cook Inlet and Prince William Sound as response plans are developed and resources are allocated to both prevent and respond to potential oil spills in the waters fishers rely upon for their livelihood.

Today, state fish managers are challenged with managing increased demand for salmon by Alaskans and visitors. Impacts to habitat and quality of fishing experience require difficult decisions that impact individual opportunities. These decisions, as difficult as they may be, are universally recognized as necessary for the long term health of our salmon resources. The Prince William Sound and Cook Inlet fisheries have established paths of cooperation so each can manage the challenges of working in shared waters, with an eye on their own but not exclusive resource-based businesses. This approach demonstrates how today’s challenges can be met in a way that allows all of Alaska’s natural resource users and industries to return great benefits to their communities for many generations to come.
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